



Budget Briefing: State Budget Overview

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Briefing Topics

- Appropriations Overview
- Economic Trends
- Revenue Trends
- Budget Trends
- Budget Outlook
- Budget Process

Appropriations Overview

Key Budget Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2024-25 is October 1, 2024 through September 30, 2025.

Appropriation: Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the legislature.

Line Item: Specific appropriation amount that establishes spending authorization for a particular program or function in a budget bill.

Boilerplate: Specific language sections in a budget bill that direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

Lapses: Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

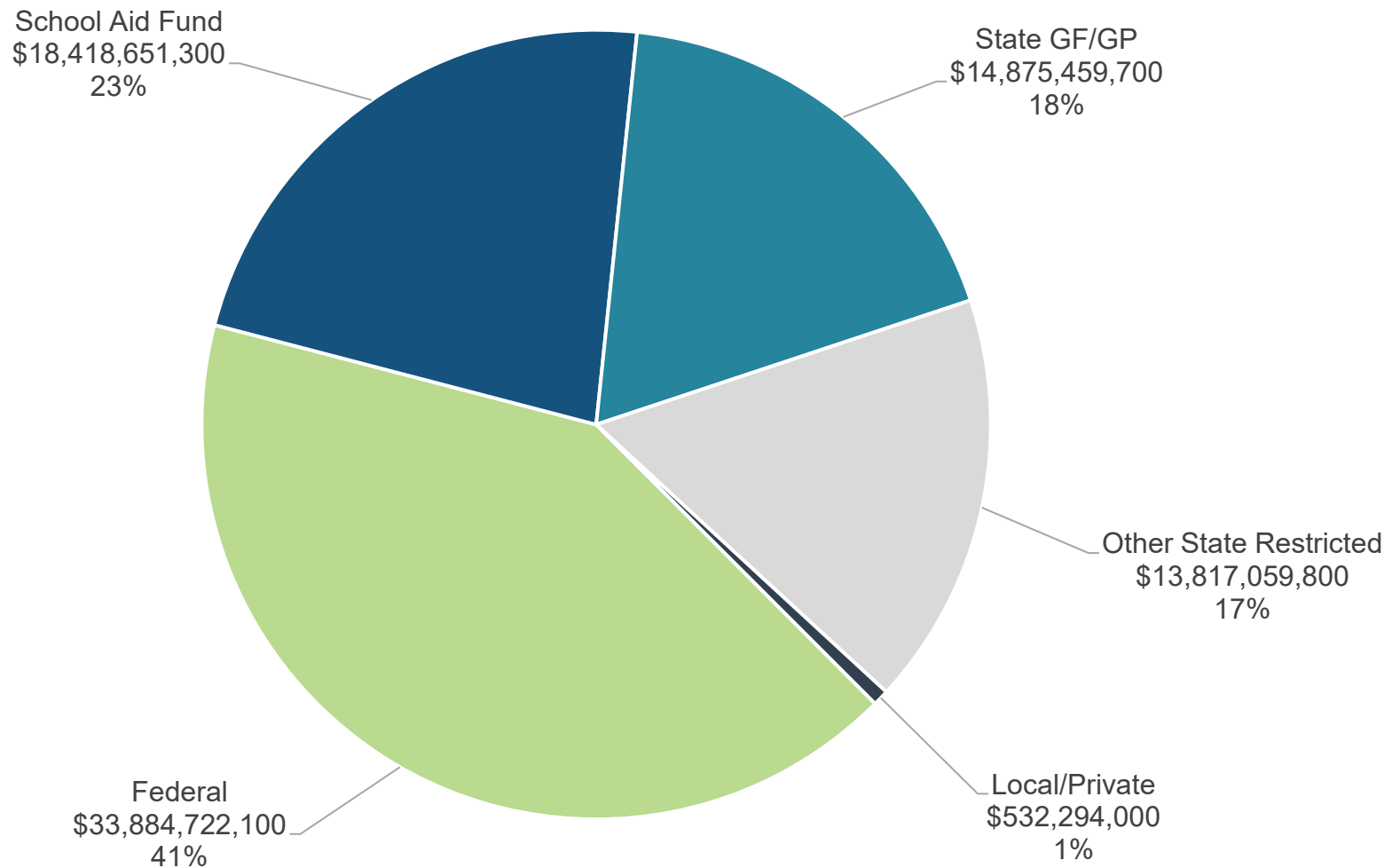
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

FY 2024-25 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$82,807,804,100	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	1,279,617,200	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$81,528,186,900	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	33,884,722,100	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	308,720,300	Revenue received from local units of government for state services
Private Revenue	223,573,700	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	32,235,711,100	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue
State General Fund/General Purpose (GF/GP) Revenue	\$14,875,459,700	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

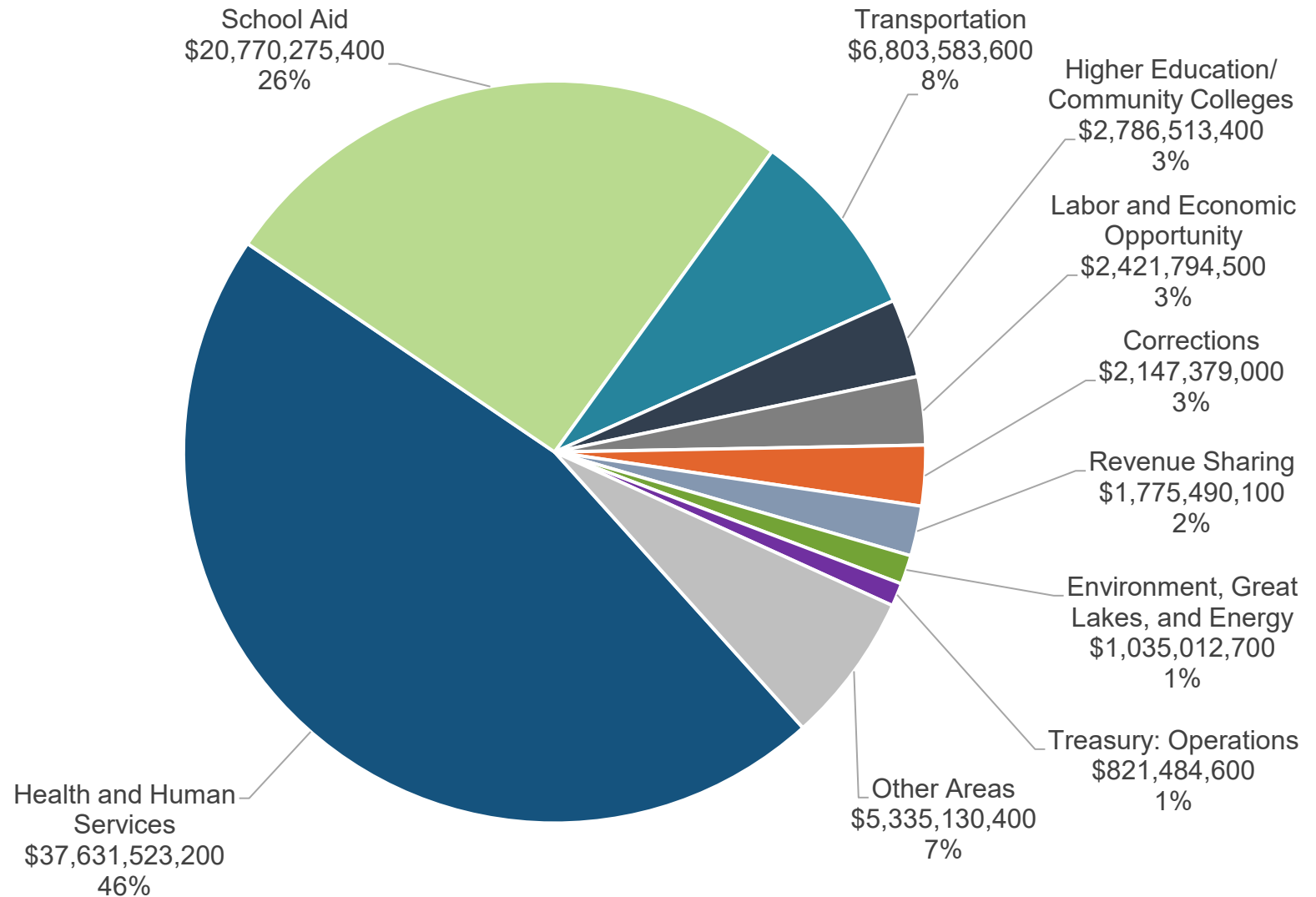
FY 2024-25 Fund Sources

About 81% of the \$81.5 billion state budget is funded by federal or restricted sources. State restricted sources can be either constitutional (for example, the School Aid Fund) or statutory in nature.



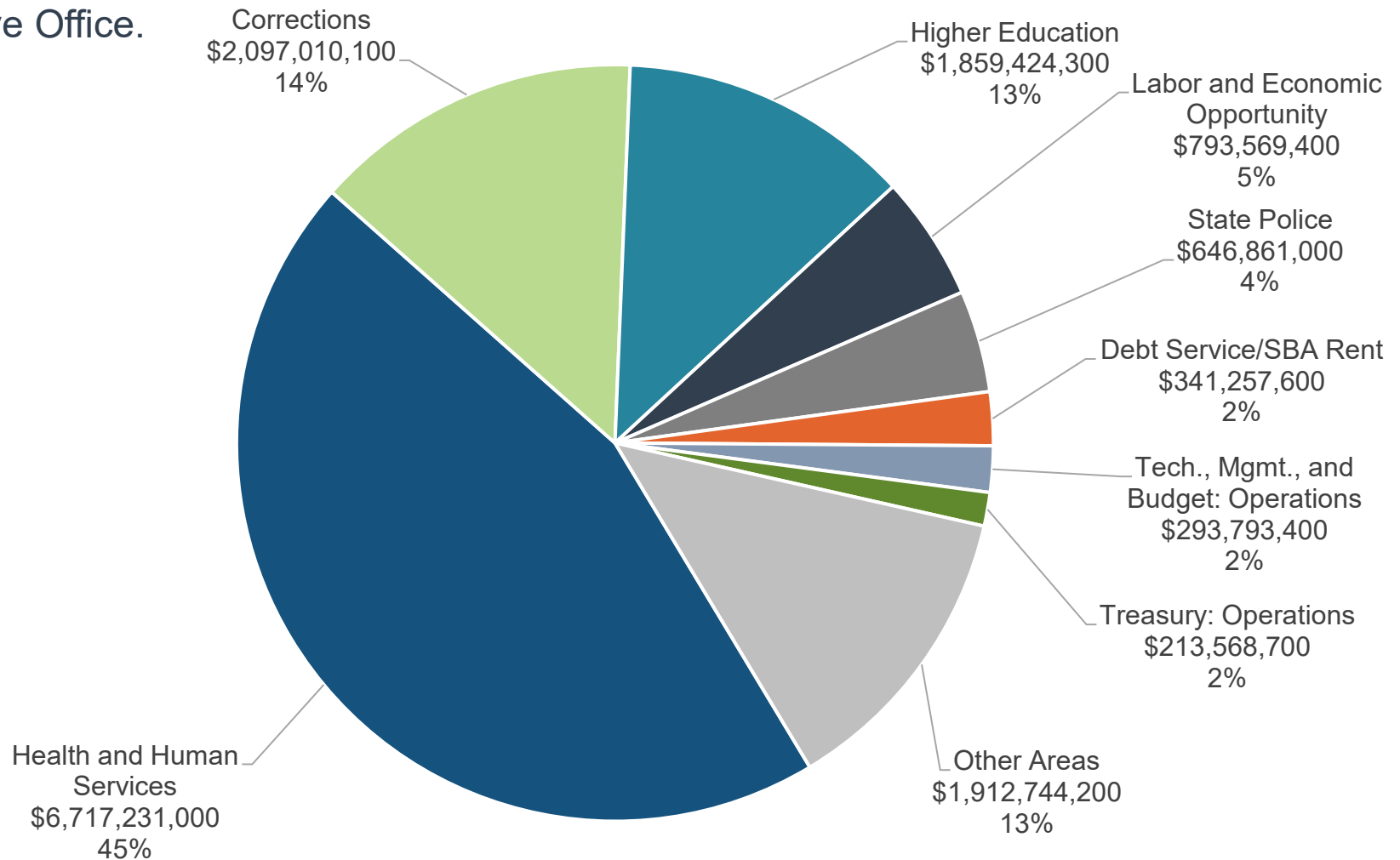
FY 2024-25 Adjusted Gross Appropriations

Large portions of the **\$81.5 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



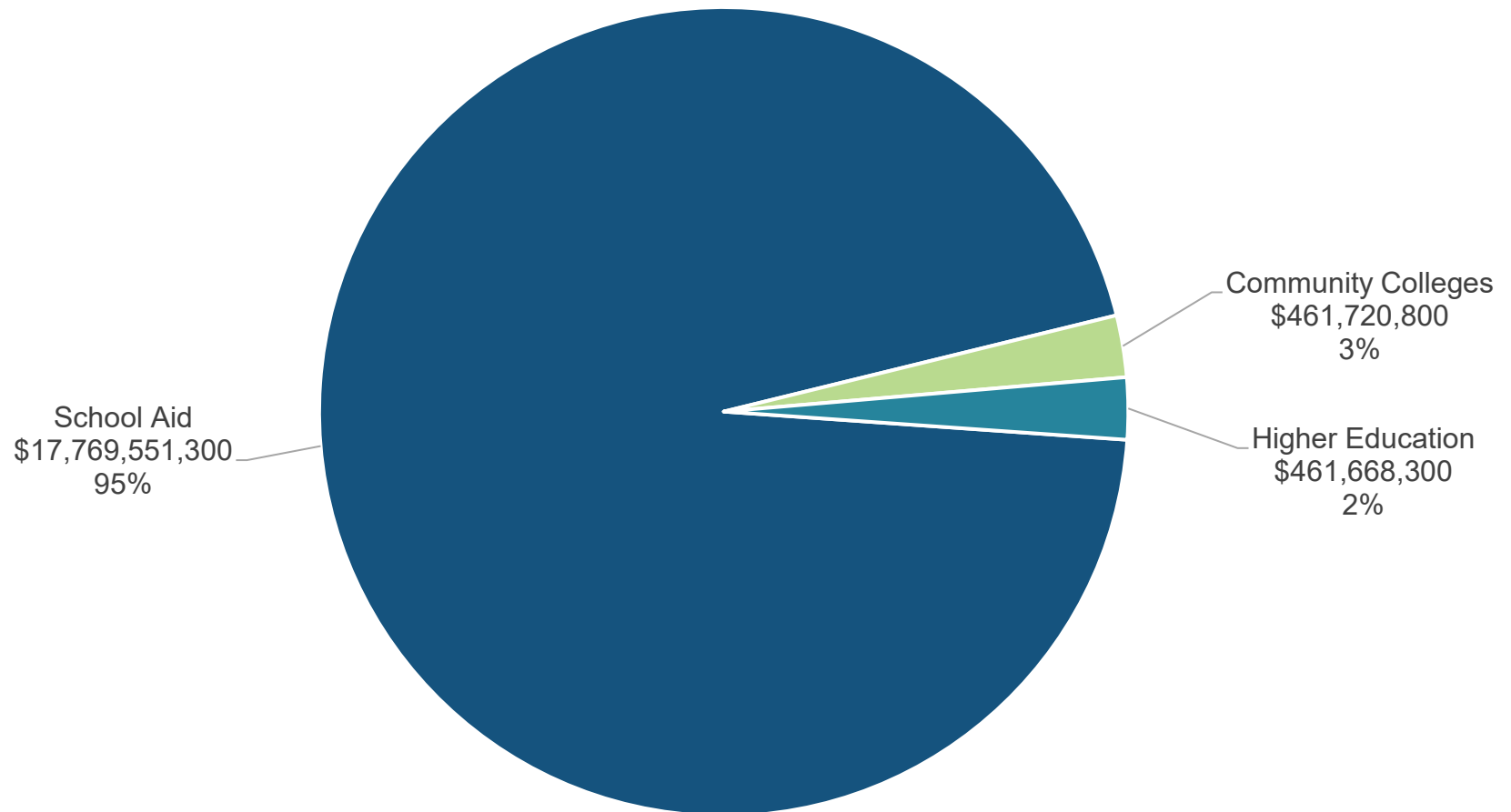
FY 2024-25 GF/GP Appropriations

87% of the **\$14.9 billion** GF/GP budget is appropriated for health and human services, public safety, higher education, economic development and debt service. The remaining 13% provides funding for 12 state departments plus Judiciary, Legislature, and Executive Office.



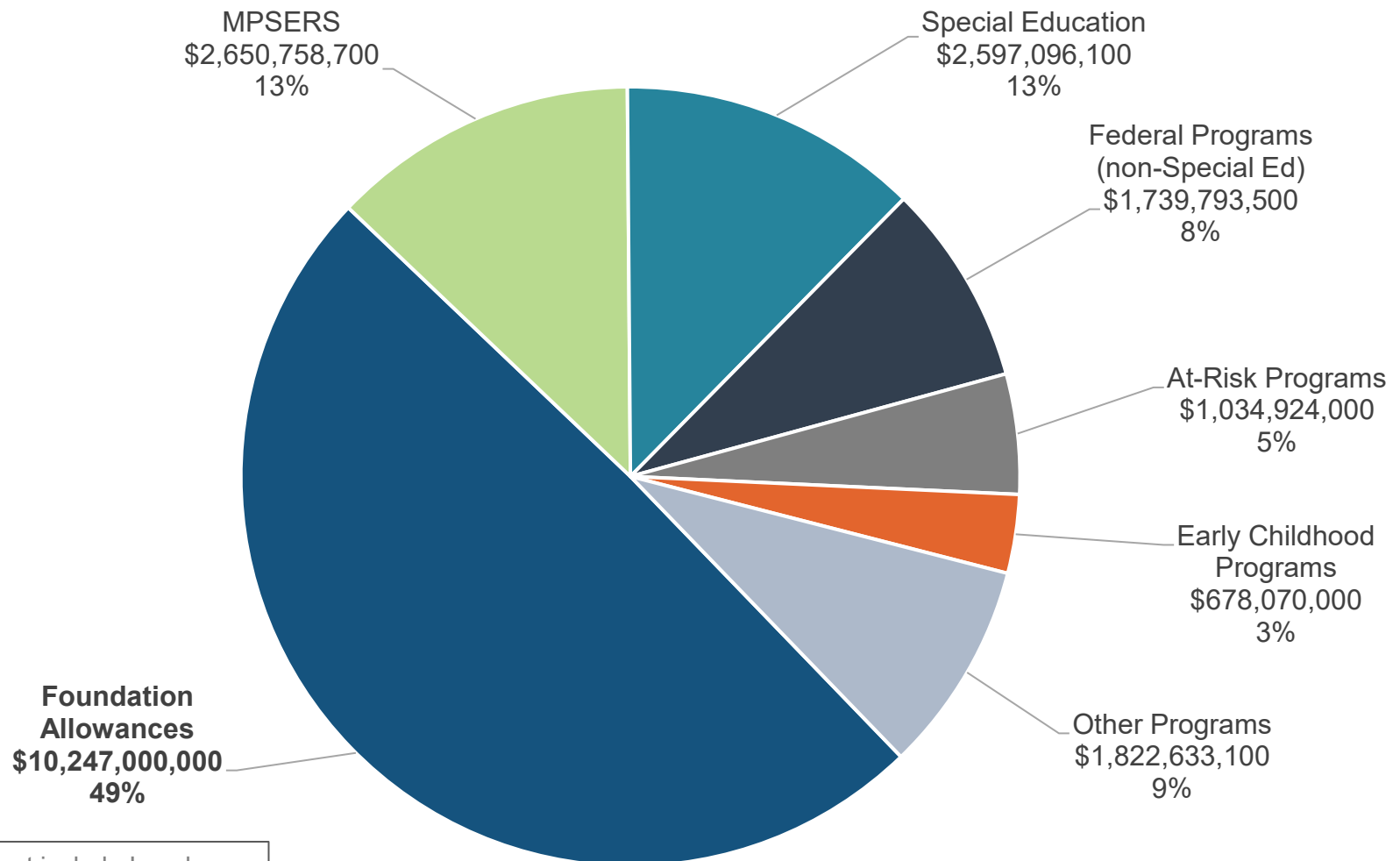
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

School Aid Fund (SAF) appropriations totaling **\$18.7 billion** are primarily for K-12 school districts. The School Aid budget represents **95%** of the state's SAF appropriations for FY 2024-25.



FY 2024-25 School Aid Appropriations

About **49%** of the **\$20.8 billion** School Aid budget supports per-pupil foundation allowances used for school district general operations.

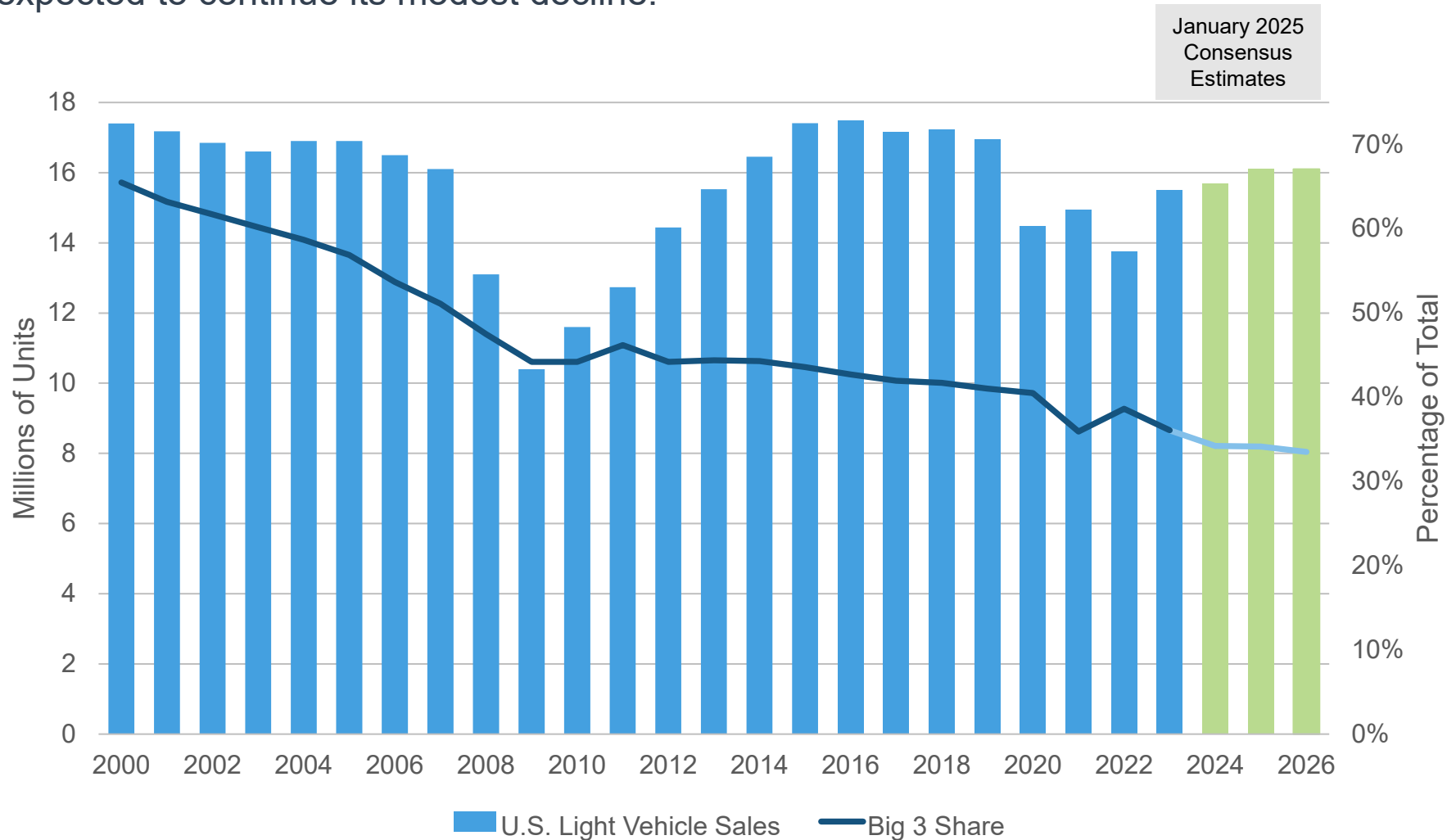


Note: Does not include Local portion of Foundation Allowances

Economic Trends

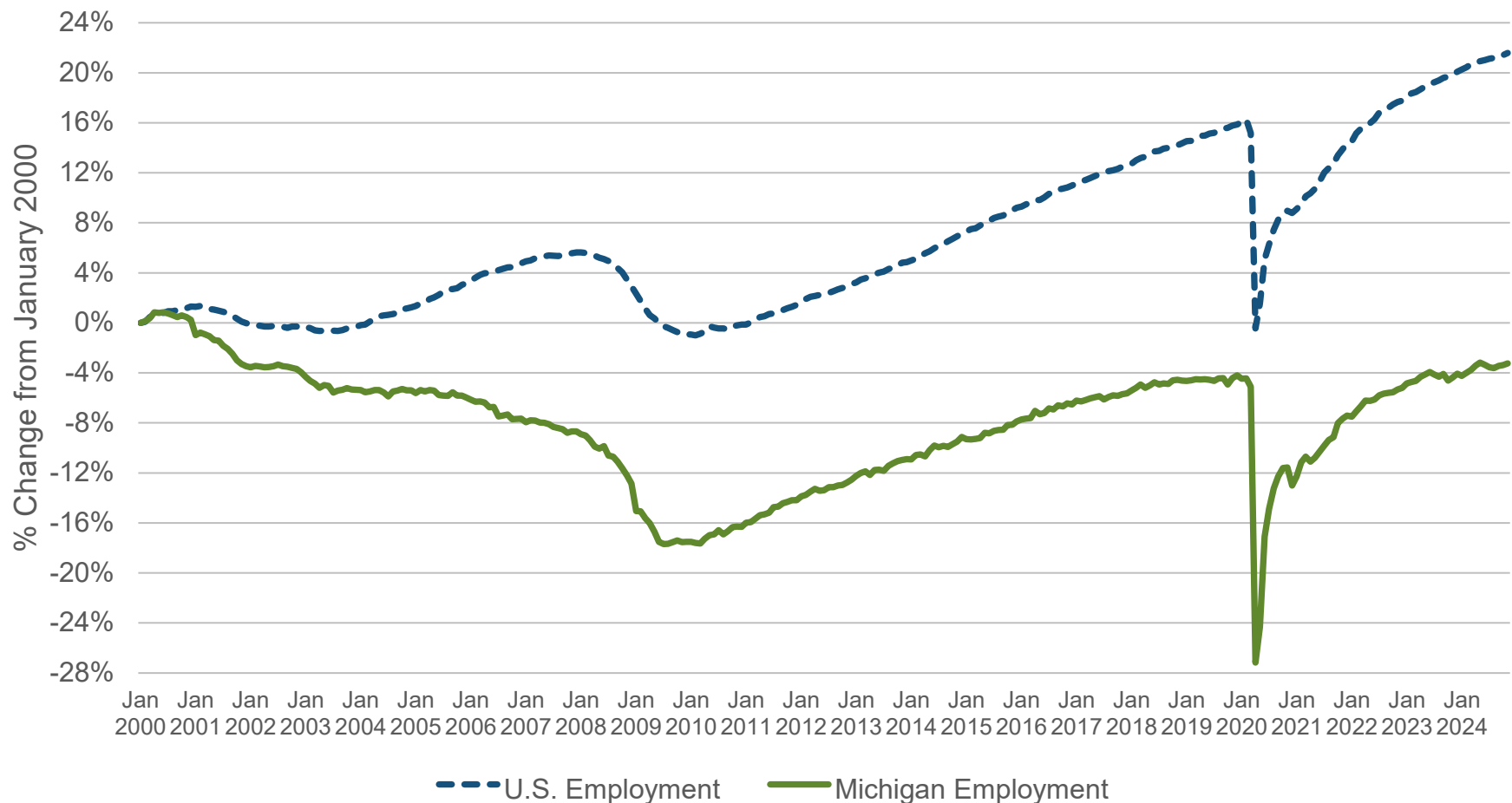
Light Vehicle Sales

Sales levels, which plummeted due to the pandemic, are expected to increase over the forecast, but will remain below pre-pandemic levels. Big 3 share of light vehicle sales is expected to continue its modest decline.



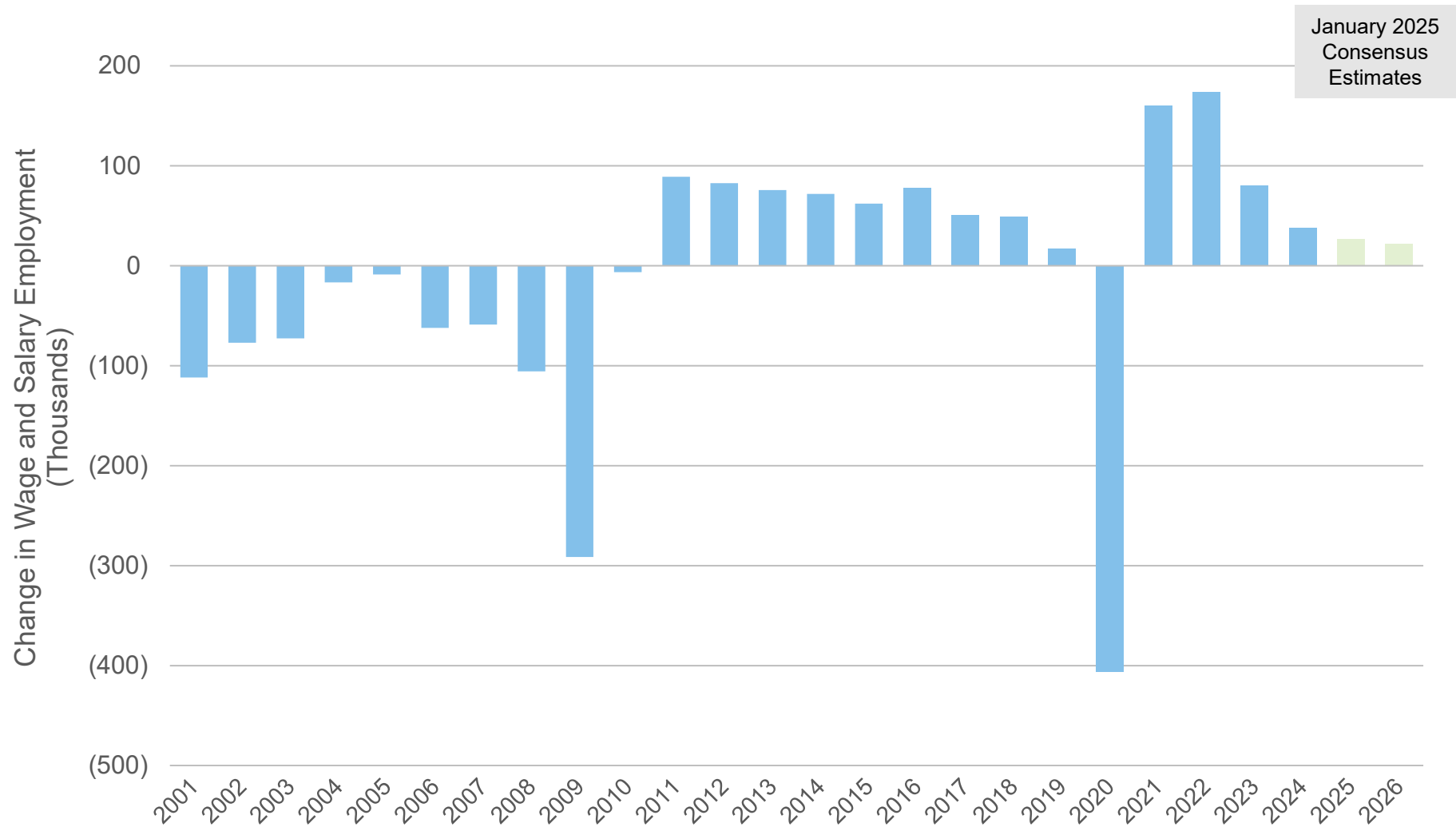
Employment Change Since 2000

Following a decade of protracted state-level job losses, Michigan employment rebounded sharply following the great recession and grew at about the same rate as national employment through 2019. After a sharp drop due to the pandemic, employment recovered rapidly through the end of 2021 and well into 2022 before leveling off. Michigan rebounded and surpassed the pre-pandemic level in April 2023.



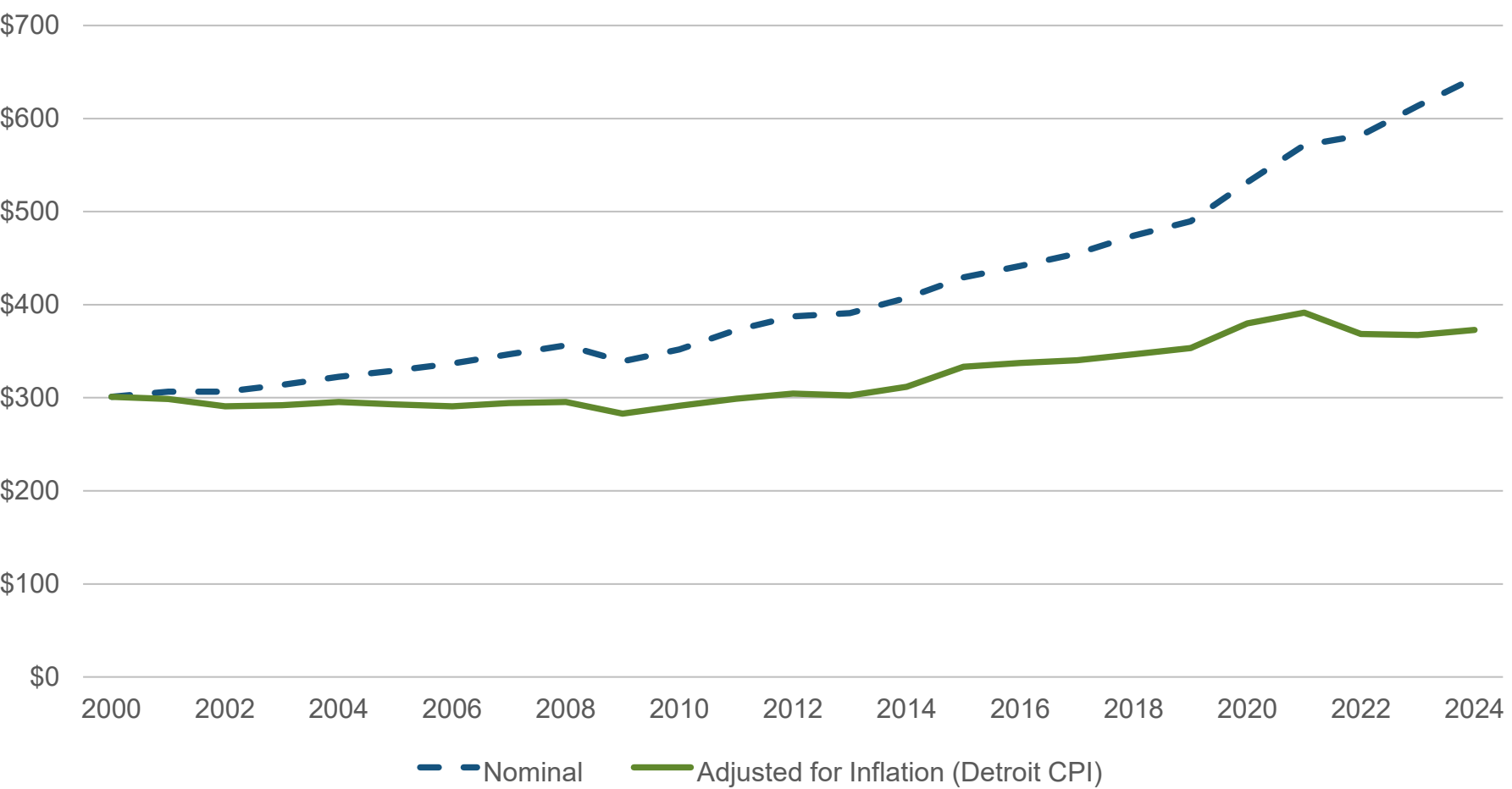
Michigan Employment Changes

After nine years of generally declining job growth, employment decreased significantly in 2020 due to the pandemic. Michigan recovered all of the pandemic job losses in April 2023. Job growth is expected to slow, but remain positive, in 2025 and 2026.



Michigan Personal Income

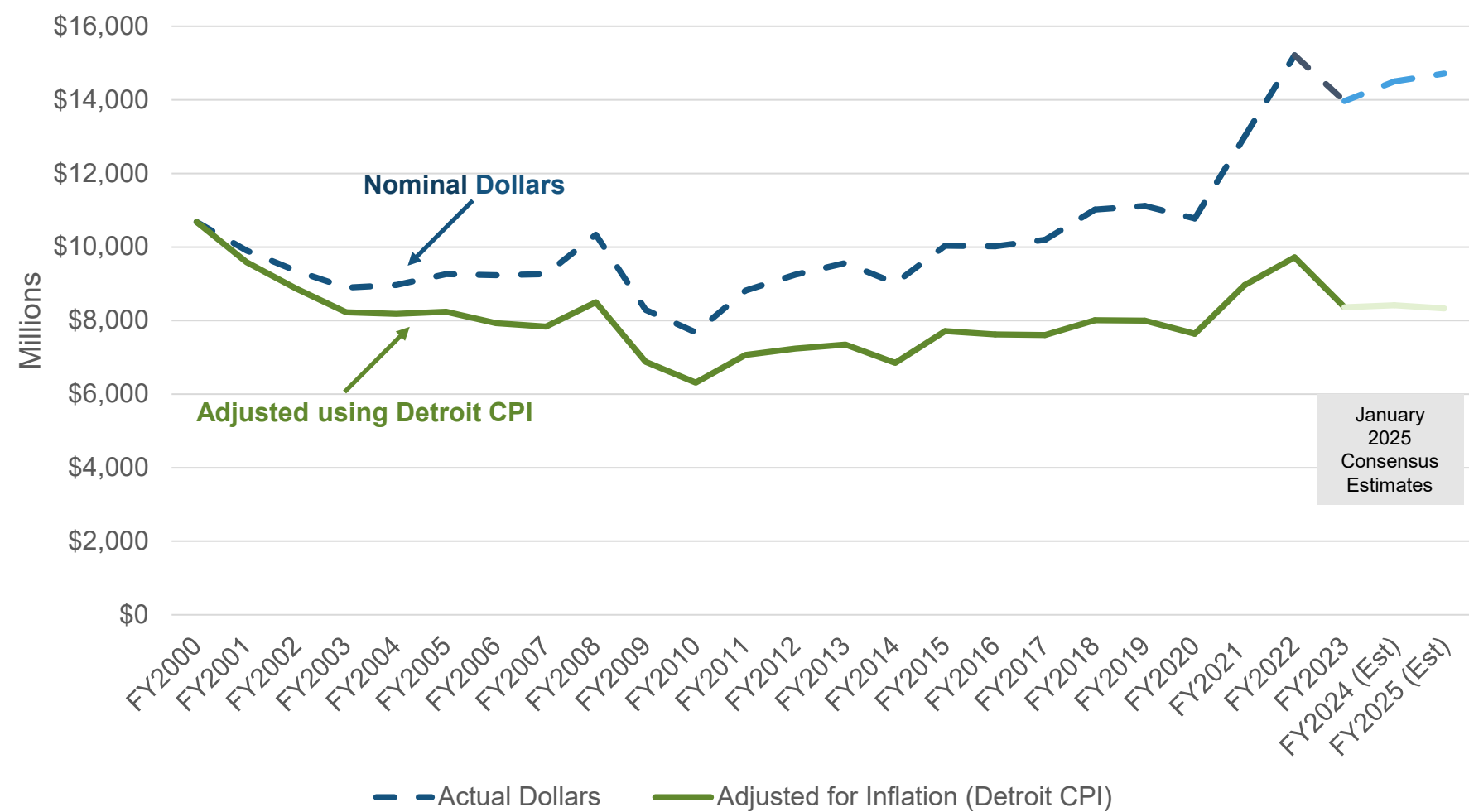
In nominal terms, total personal income in Michigan has risen roughly 114% between 2000 and 2024. In inflation-adjusted terms, however, personal income was essentially flat through 2013 before rising realizing modest gains in recent years.



Revenue Trends

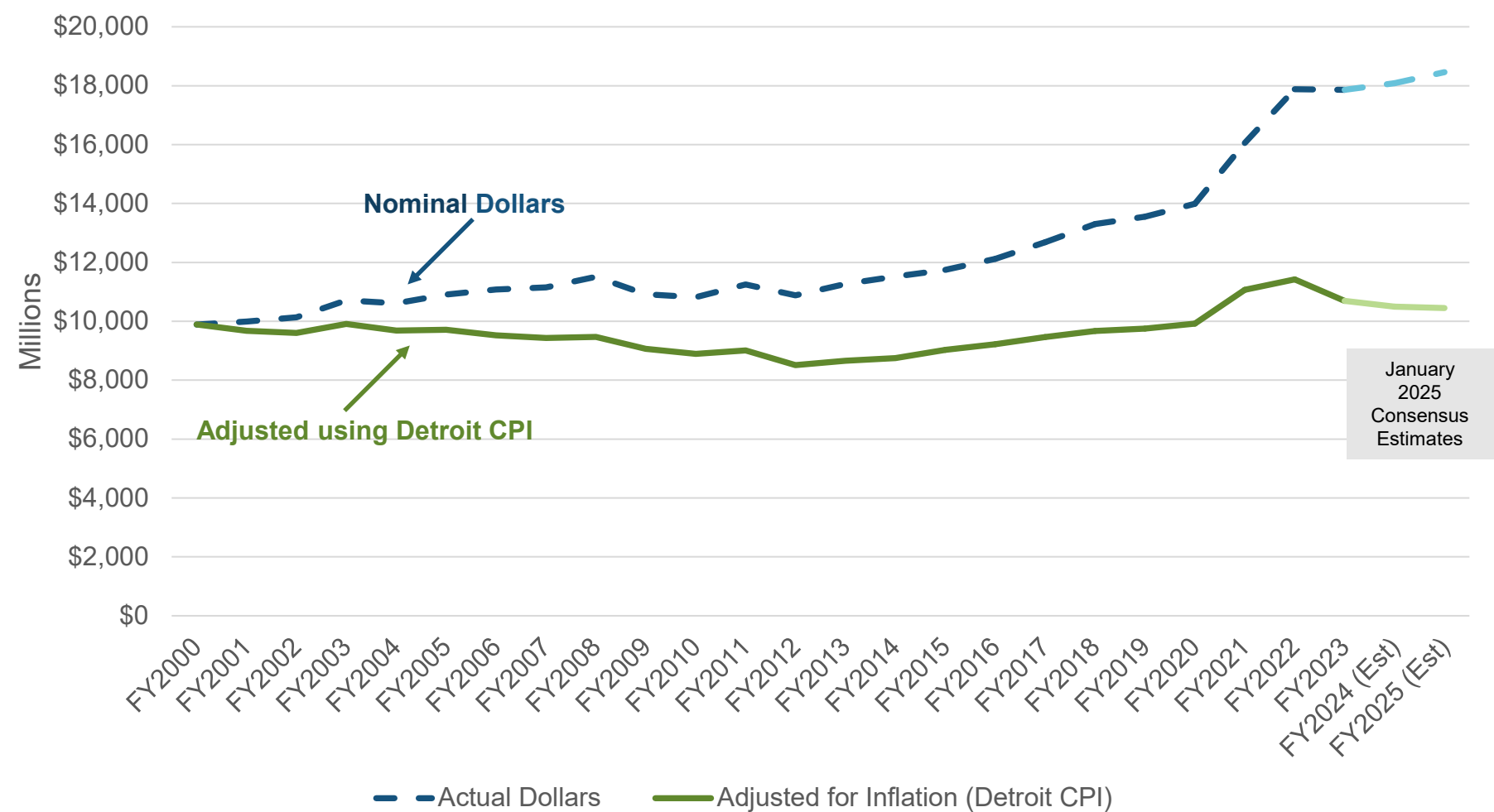
GF/GP Net Revenue

Nominal GF/GP revenue is expected to exceed \$14.0 billion in FY 2024-25. When adjusted for inflation, however, GF/GP revenue is estimated to be 22.0% below the FY 1999-00 level.



School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, SAF revenue remained below the FY 1999-00 level until FY 2020-21. Elevated inflation in recent years has minimized the growth of SAF revenue in real terms..



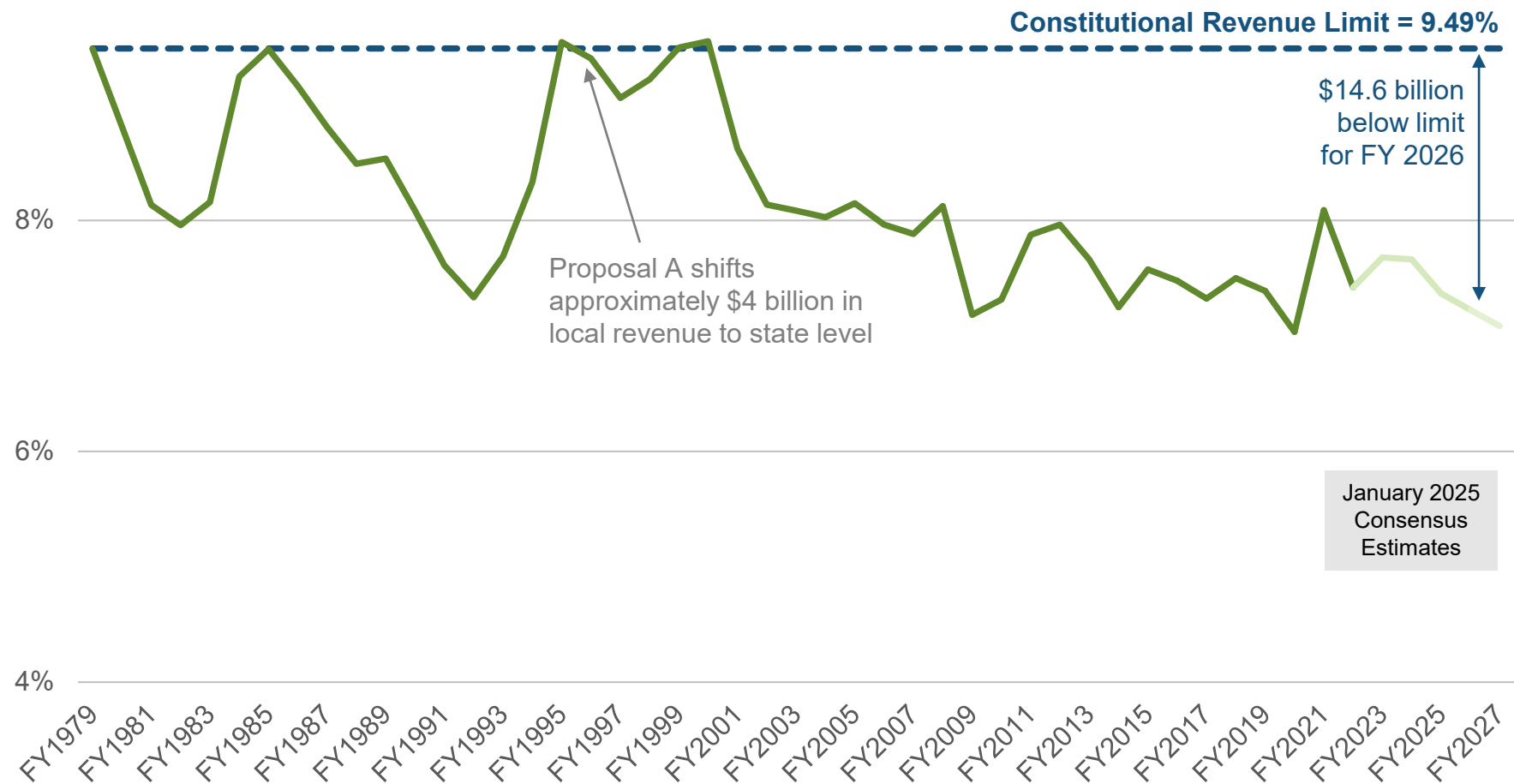
Major State Taxes as a Percentage of Michigan Personal Income

Recent growth in state revenue has been driven by the income tax. Other major state taxes have declined as a percentage of state personal income as a result of economic trends or tax policy decisions.



Total State Revenue as a Percentage of Michigan Personal Income

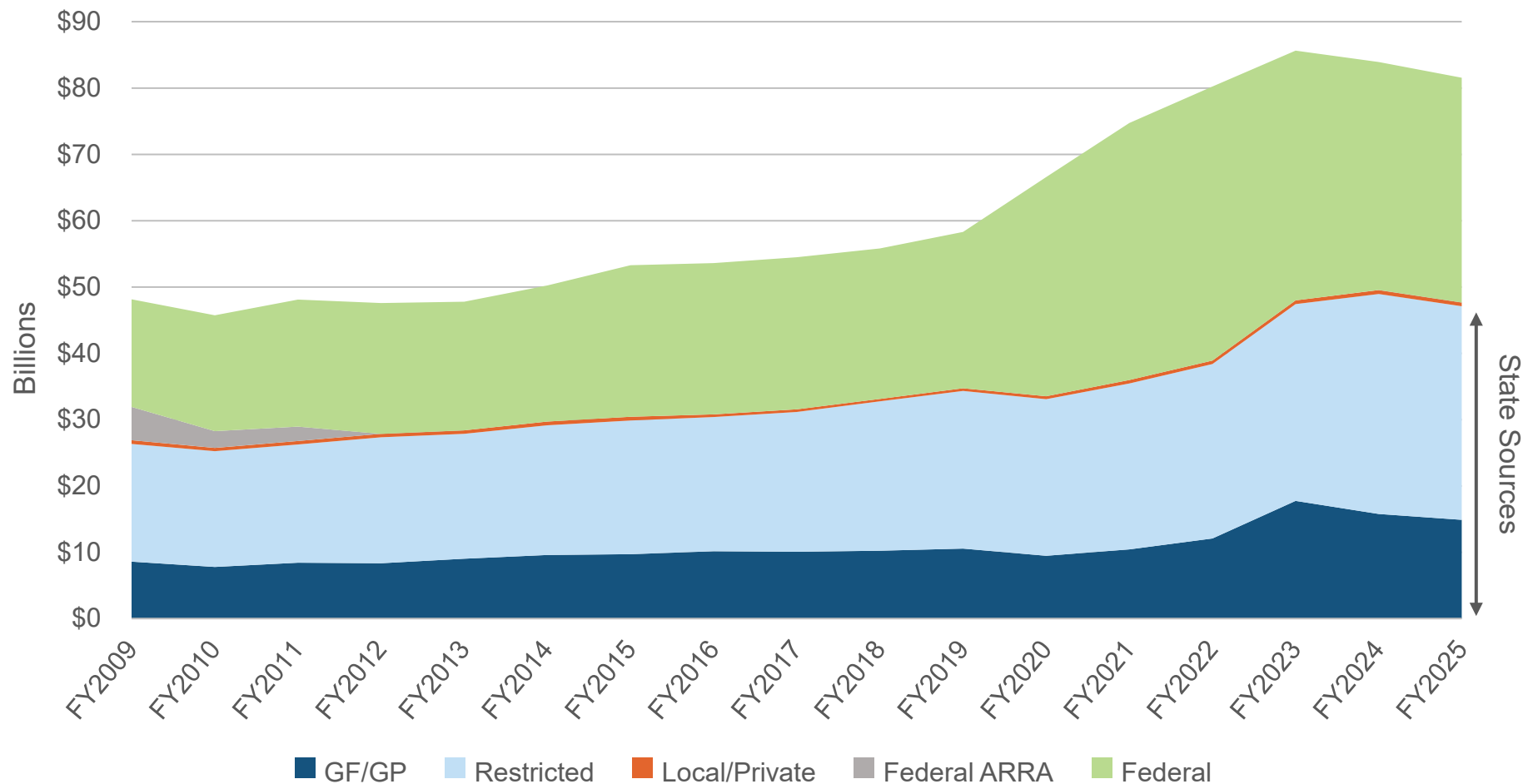
Michigan's constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. The state is projected to be **\$14.6 billion** below that limit in FY 2025-26 and **\$16.1 billion** below in FY 2026-17.



Budget Trends

Total State Budget History

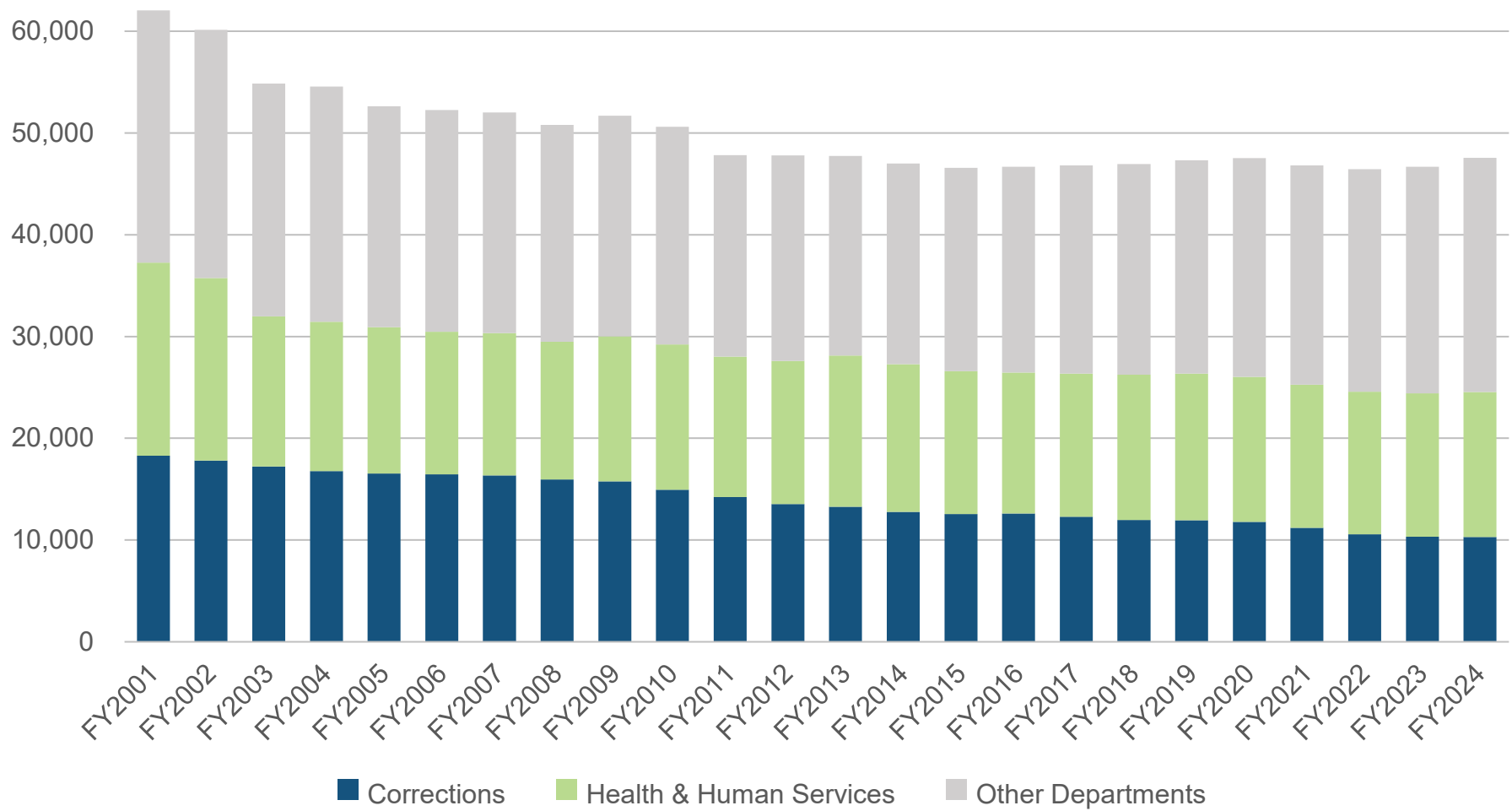
Total state budget growth of **69%** since FY 2008-09 has been driven by both growth in federal and state funds for Medicaid expansion and federal stimulus funding in response to the coronavirus pandemic.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Total Classified State Employees

The total number of state employees has declined by about **14,511 (31%)** since FY 2000-01.



Source: Michigan Civil Service Commission, Annual Workforce Report

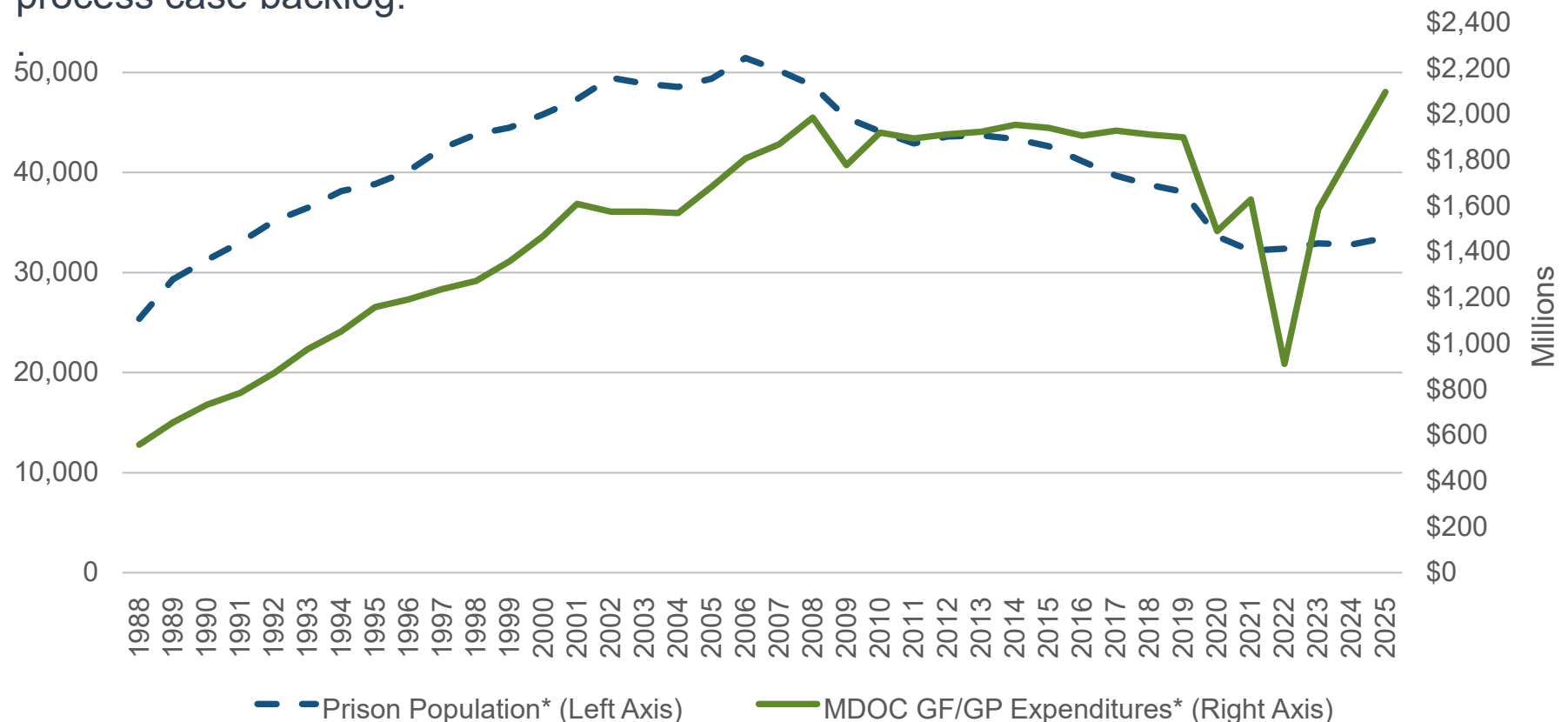
State Employee Compensation-Related Costs

Estimated FY 2024-25 Total: \$6.8 billion Gross (\$3.6 billion GF/GP)

- **Salary and Wages: \$4.2 billion Gross (\$2.2 billion GF/GP)**
 - Average salary for a full-time state employee in 2023 is \$72,821.
- **Health Insurance: \$813.4 million Gross (\$417.7 million GF/GP)**
 - Employee premium costs are paid on an 80/20 state/employee basis.
- **Retirement and Other Post Employment Benefits (OPEB): \$1.8 billion**
 - While costs associated with investment performance increased substantially after investment losses during the Great Recession, they have stabilized in recent years. The legislature's decision in 2011 to begin prefunding retiree health care benefits (OPEB) and the implementation of more conservative assumptions coupled with a funding floor has resulted in short-term cost increases but reduced long-term liabilities.
 - Employees hired since 1997 enter a defined contribution (DC, or 401k) retirement plan, rather than a pension plan. Employees in the pension plan now pay 4% of salary into the system. Employees hired since 2012 receive a DC cash benefit in place of retiree health care benefits.

Corrections Population and Expenditures

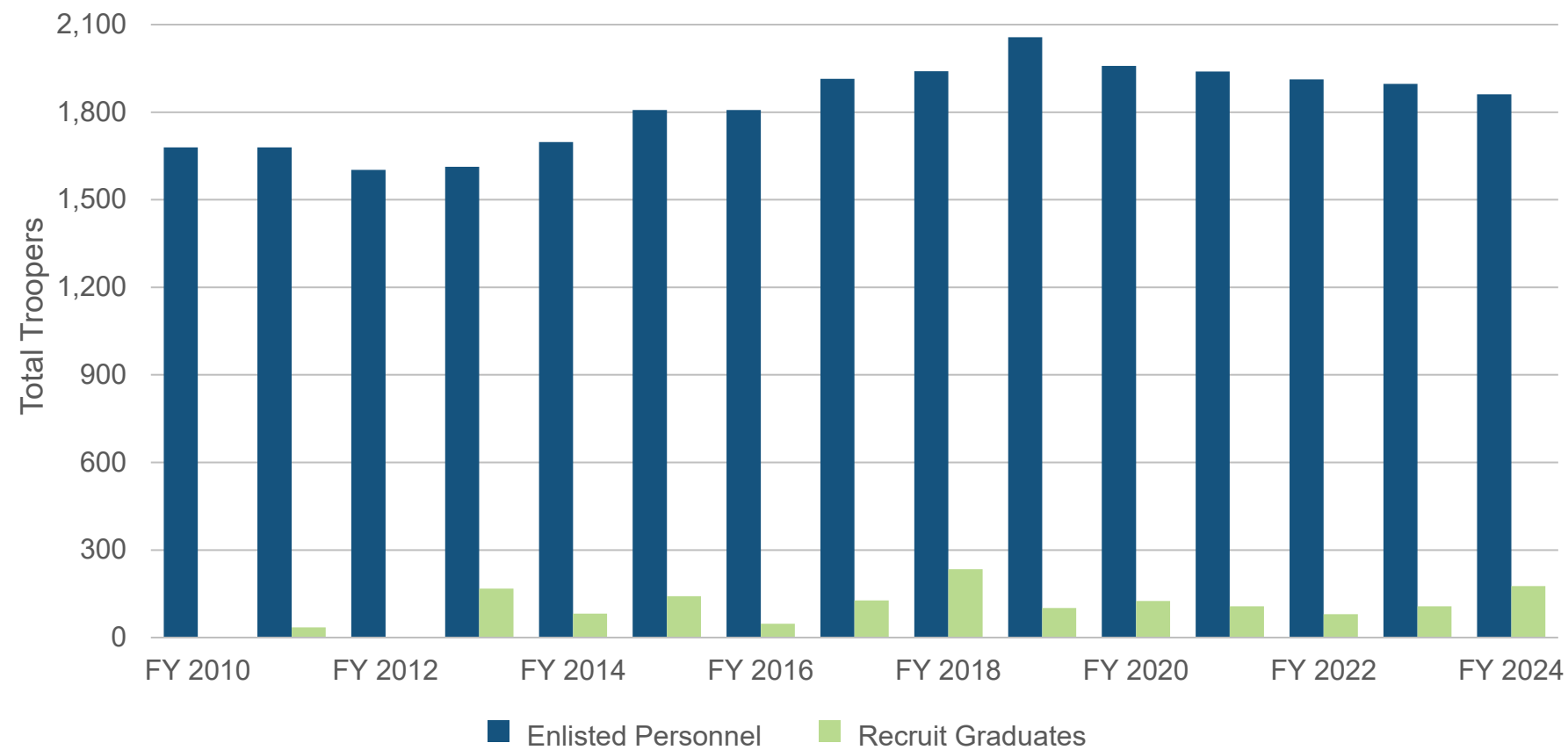
The cost of corrections has remained flat in recent years and the prison population has declined. Over **85%** of the Corrections budget supports employee-related costs. Population has declined in recent years because of a decrease in felony dispositions due to the COVID-19 pandemic. Population is expected to increase over the next few years as the state continues to rebound from the pandemic and courts continue to process case backlog.



**2020 through 2024 figures reflect reduced GF/GP due to receipt of federal disaster assistance and Coronavirus relief funding, and a reduced prison population related to COVID-19; 2025 figures are based on year-to-date GF/GP appropriations and an estimated prison population*

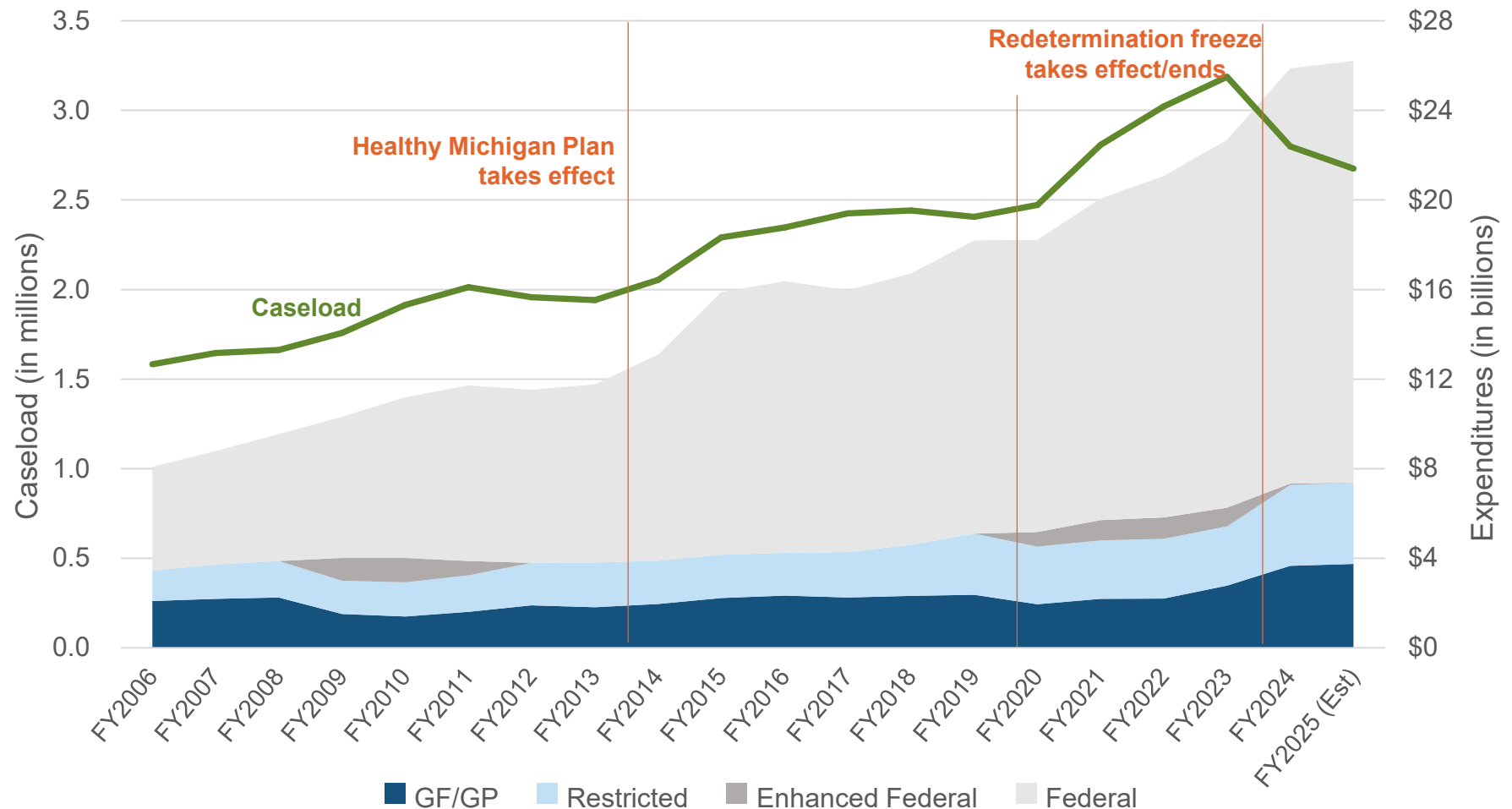
MSP Total Enlisted Strength

MSP enlisted strength increased by nearly **10%** from FY 2009-10 to FY 2023-24. Following a period of steady growth from FY 2011-12 to FY 2018-19, enlisted strength has declined slowly since FY 2019-20. This decline has been offset in part by a consistent output of recruits from trooper schools, which have received increased funding in recent fiscal years. In FY 2023-24, an additional **\$4.8 million** GF/GP was appropriated to support four trooper schools that produced 176 graduates.



Medicaid Expenditures by Fund Source

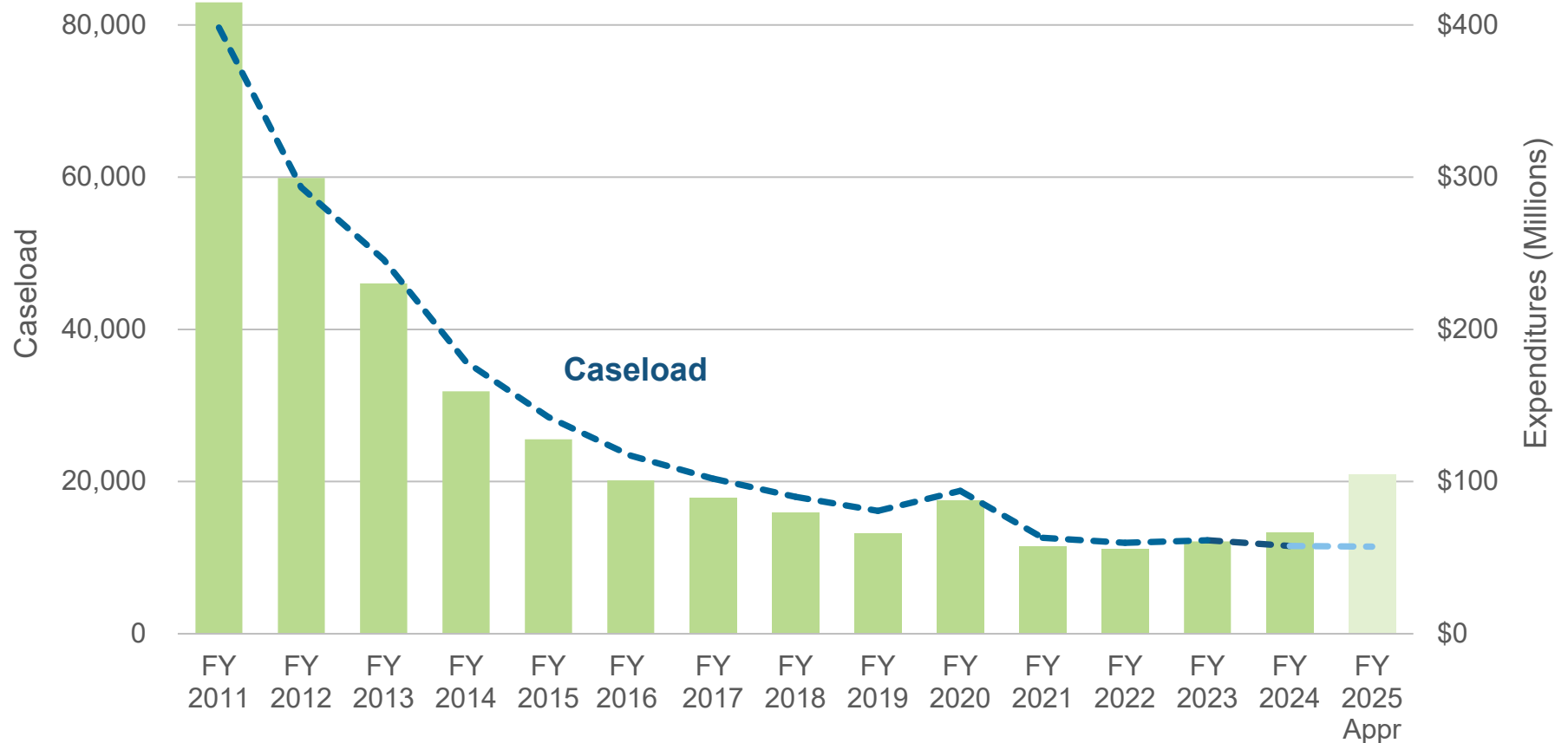
Since FY 2005-06, the state's total Medicaid caseload has increased by **77%**, expenditures have increased by **220%**, and GF/GP has increased by **75%**, due to economic trends, the expansion under the Healthy Michigan Plan, and more recently the coronavirus pandemic redetermination freeze and subsequent redeterminations.



Enhanced Federal from American Recovery and Reinvestment Act of 2009 and Families First Coronavirus Response Act of 2020

Family Independence Program (FIP) Expenditures

Expenditures and caseloads for FIP have declined markedly due to both policy changes, including imposition of lifetime time limits, and economic conditions. Costs are increasing in the current fiscal year due in part to an **18.5%** increase in payment standards and an expansion of the monthly per-child supplement.



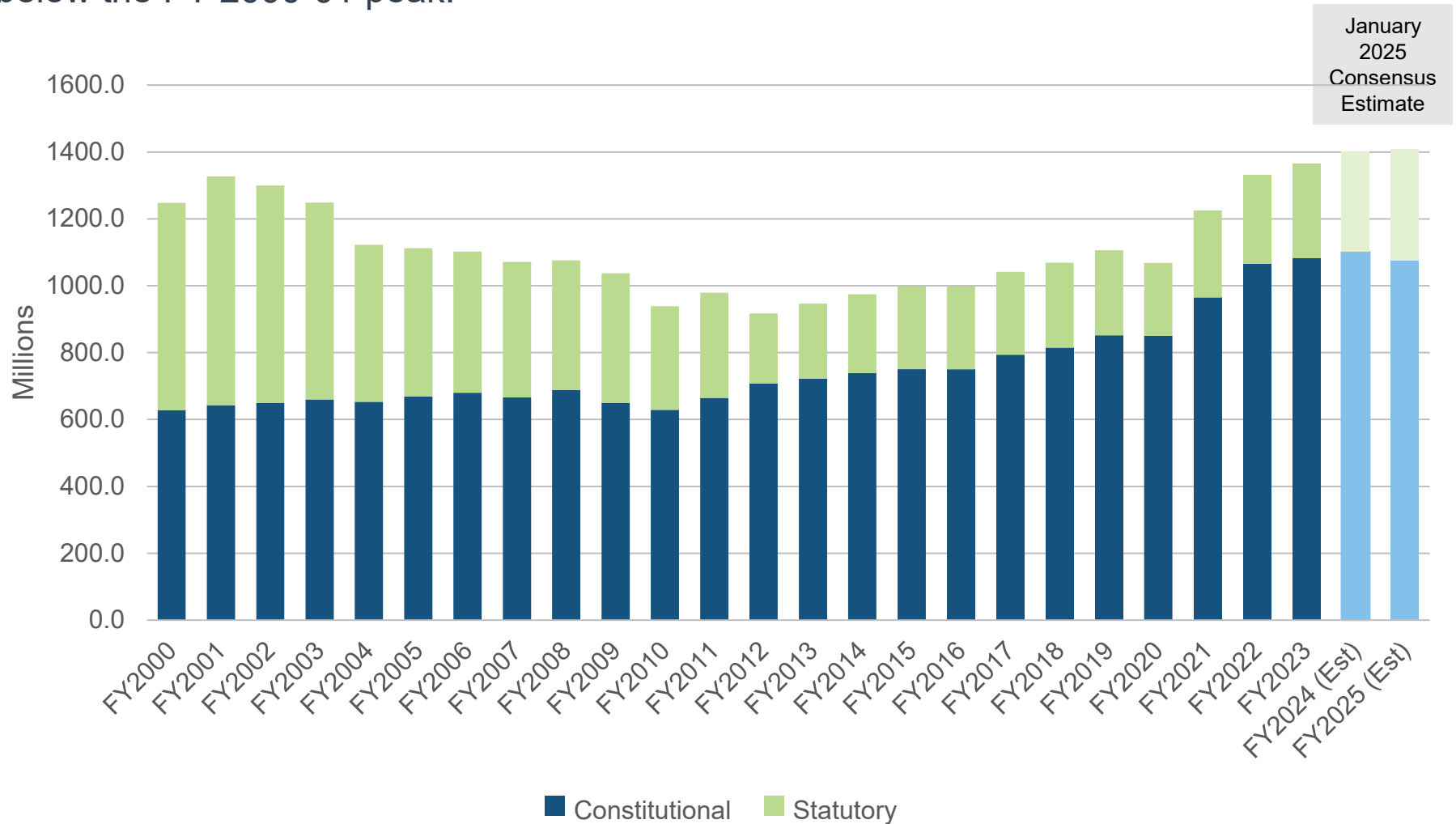
GF/GP Support for Medicaid Expenditures

Three major factors have allowed GF/GP support for Medicaid to be held relatively flat through FY 2023-24:

- 1) The increased use of provider assessments and other state restricted revenue sources as state match. Restricted funds have grown from **\$775 million** to **\$3.5 billion**
 - A 2012 GAO report indicates that Michigan is already among the most aggressive states in utilizing provider assessments
- 2) The federal FMAP rate moving in Michigan's favor as the state's economy lagged the national economy in the late 2000's. If Michigan's FMAP was still at the FY 2003-04 rate of 55.89% (instead of 64.94%), the state would need to identify **\$1.6 billion** in additional state matching funds
- 3) Initial 100% federal funding for the Healthy Michigan Plan population
 - State match costs for the Healthy Michigan Plan begin on January 1, 2017. This resulted in GF/GP costs of **\$2 million** for three-quarters of FY 2016-17, increasing to **\$65.1 million** per year in FY 2023-24
 - Alternately, discontinuing Healthy Michigan Plan and shifting mental health, prisoner health care, and other costs back to the state would cost **\$235 million** per year, plus the GF/GP cost of offsetting lost IPA revenue

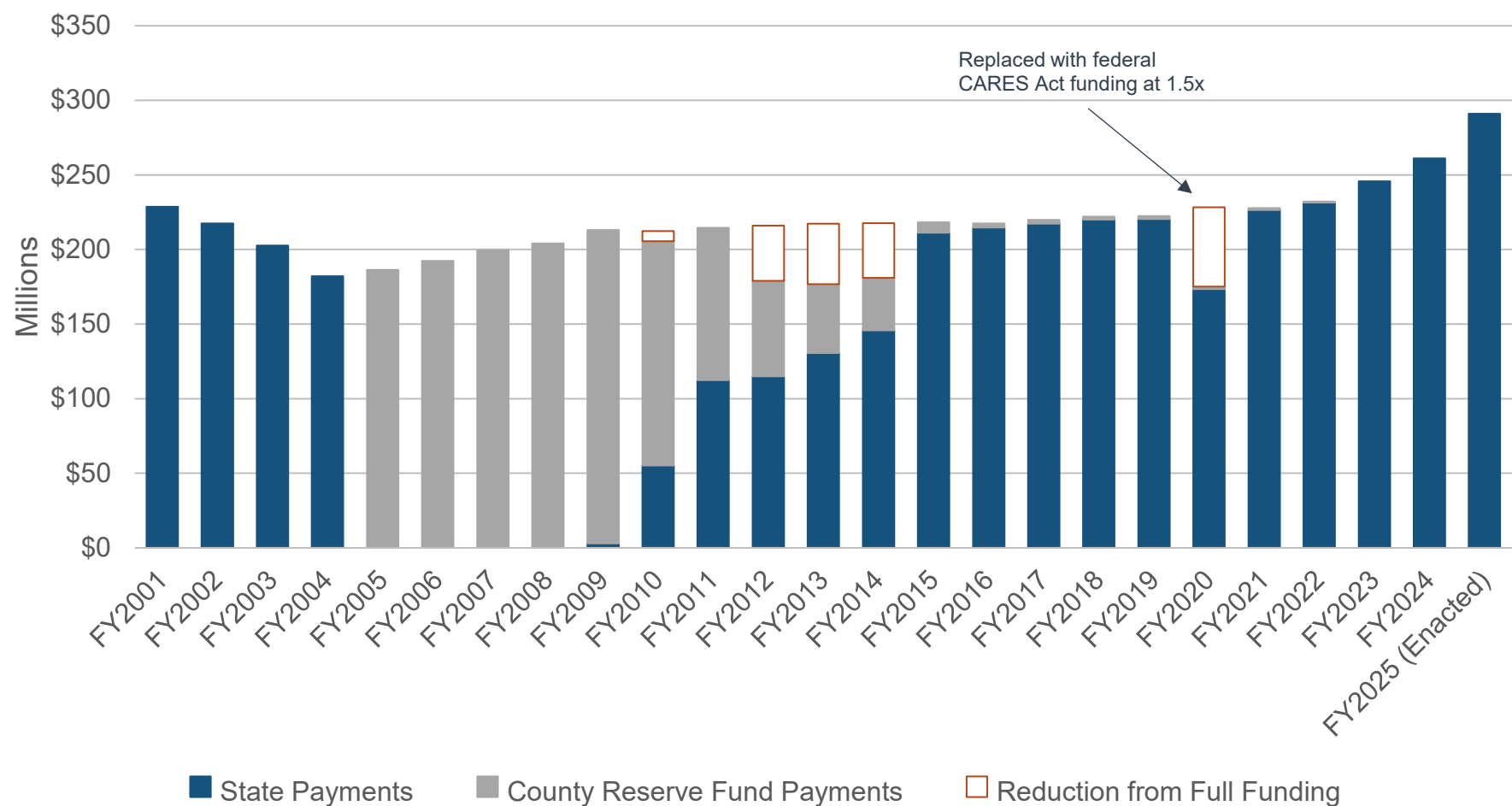
Revenue Sharing to Cities, Villages, and Townships (CVTs)

Per capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. FY 2023-24 discretionary (statutory) payments remain **\$350.4 million** below the FY 2000-01 peak.



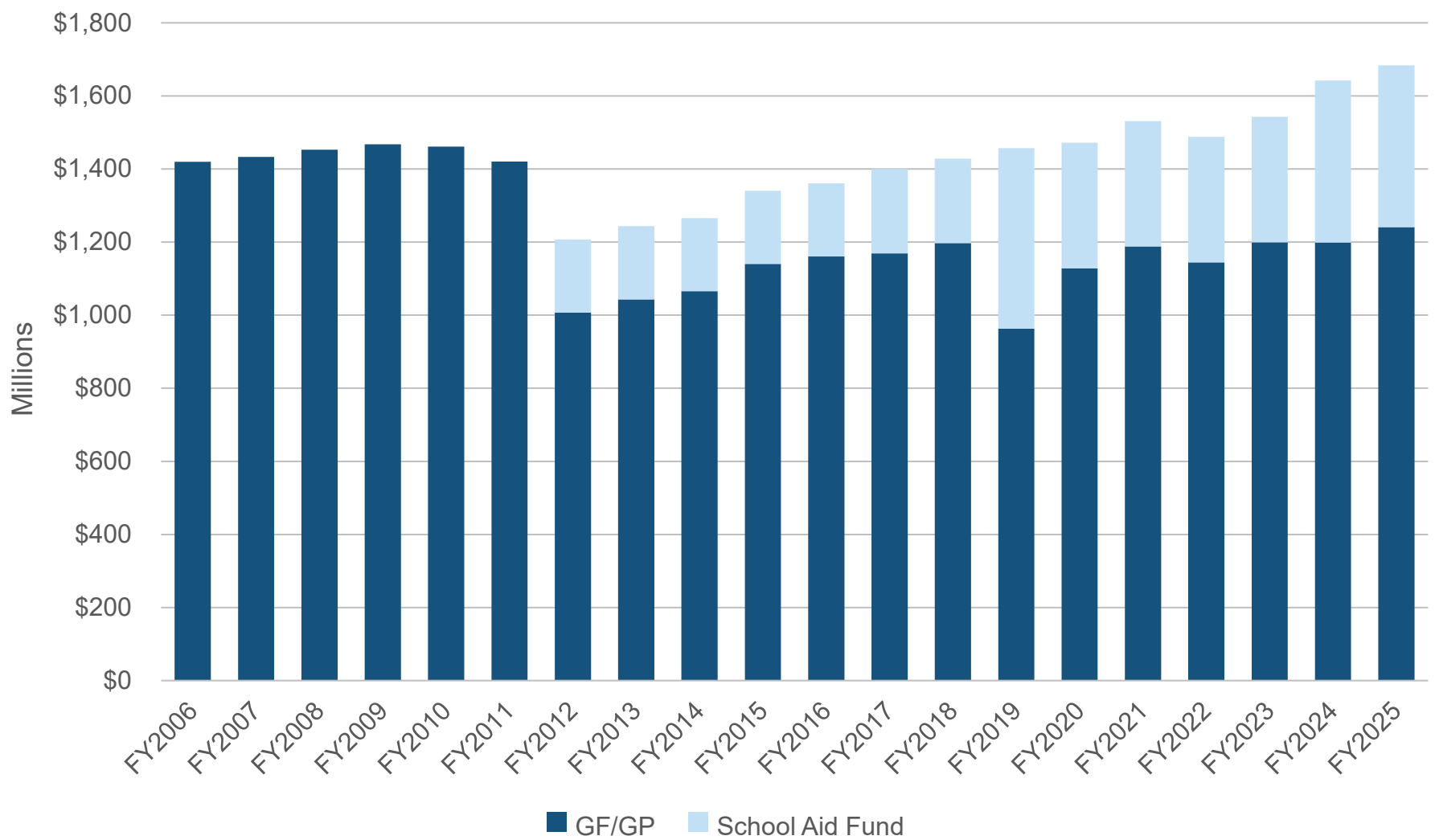
County Revenue Sharing

Reserve fund payments temporarily replaced state revenue sharing for counties. After a period of underfunding, full funding to counties was restored based on the reserve fund mechanism in FY 2014-15 and increased above full funding beginning in FY 2016-17. For FY 2024-25, total funding is about **\$62.4 million** higher than FY 2000-01.



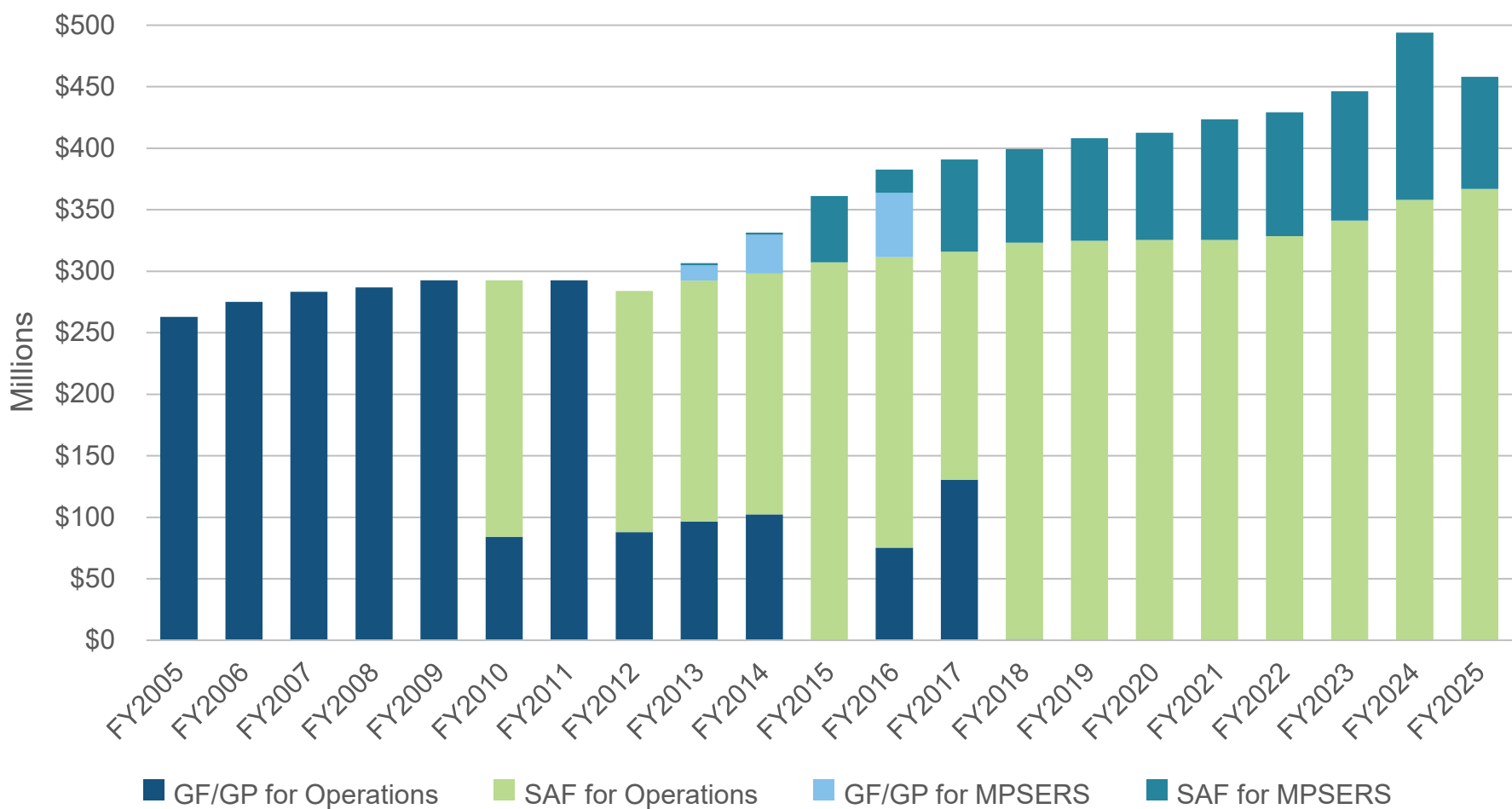
University Operations Grants History

State support for public universities operations has increased by **\$476.5 million (39%)** since FY 2011-12 and hit a new nominal 20-year high of **\$1.68 billion** in FY 2024-25. SAF funding has remained steady for the past two fiscal years.



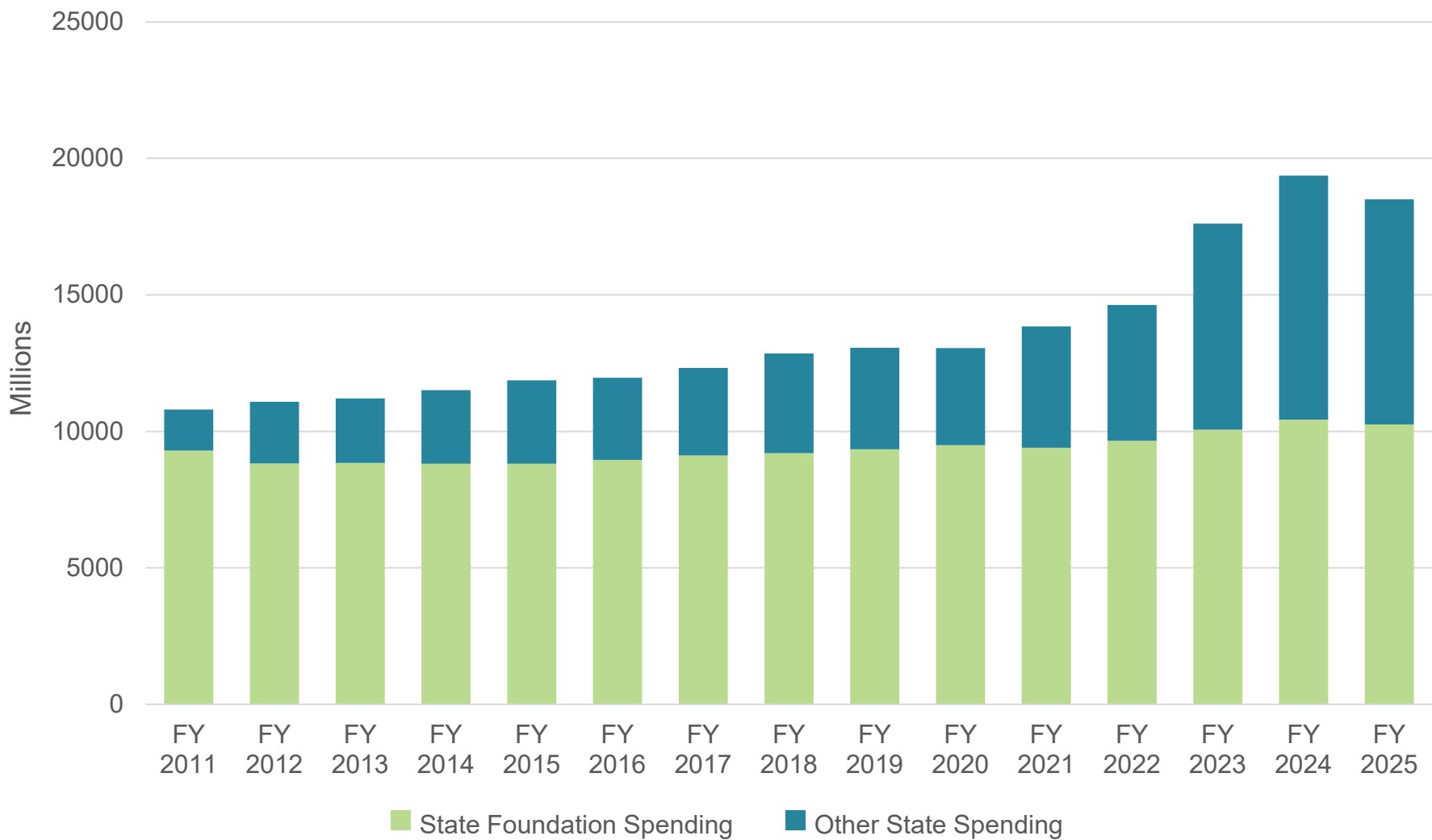
Community College Appropriations

FY 2024-25 state appropriations for community college operations are at their peak of **\$366.9 million**, increasing by 2.5% over the previous fiscal year. Increased funds have been allocated in recent years to offset growing retirement costs.



School Aid Funding History – State Funds

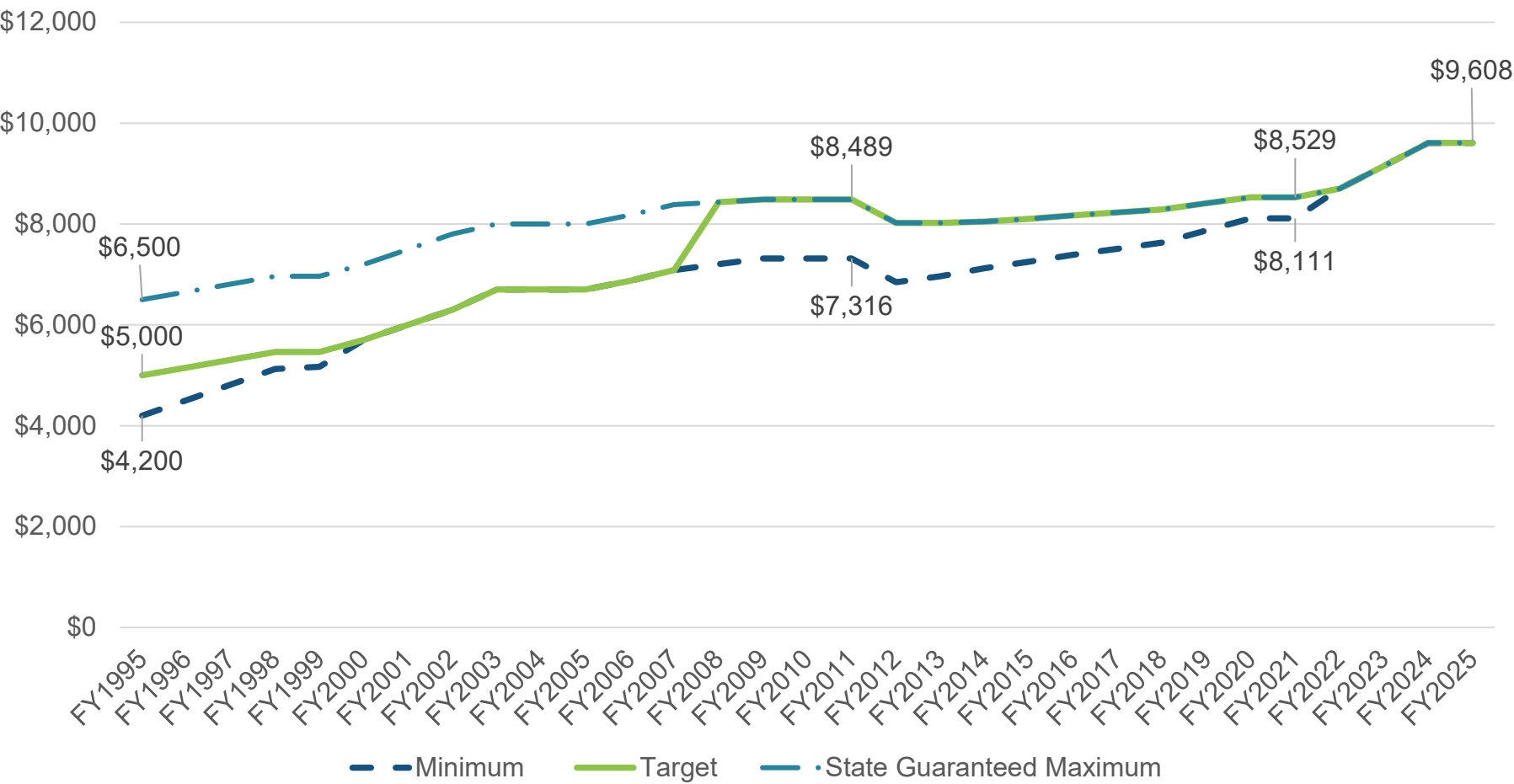
Since FY 2010-11, non-foundation allowance spending has contributed to **88%** of the growth in School Aid state appropriations. In FY 2024-25, foundation allowances make up **55%** of total state spending.



Foundation Allowance History

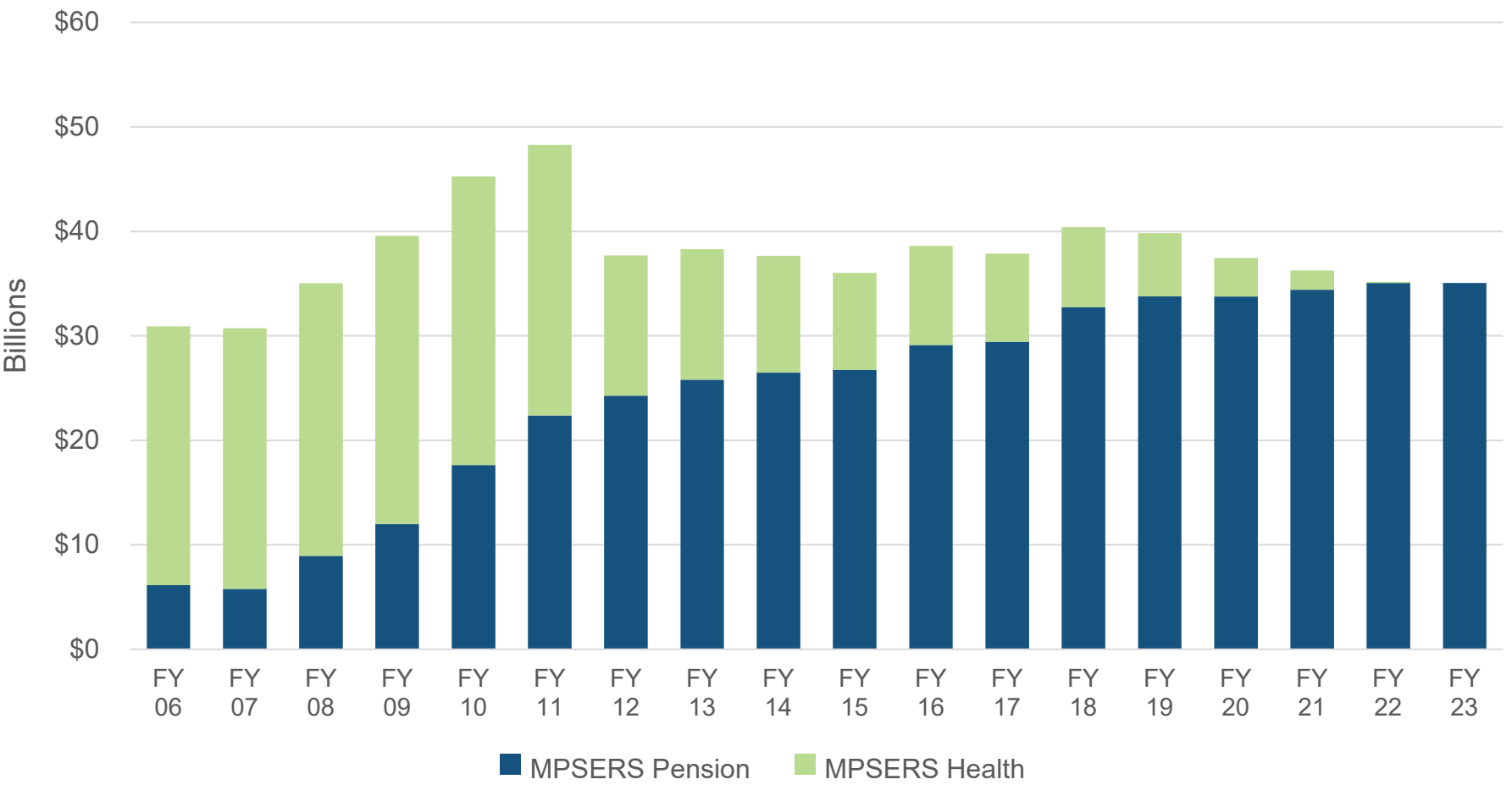
Growth Since Proposal A

The Target is maintained at **\$9,608** per pupil for FY 2024-25. Cyber schools receive **\$9,150** per pupil.



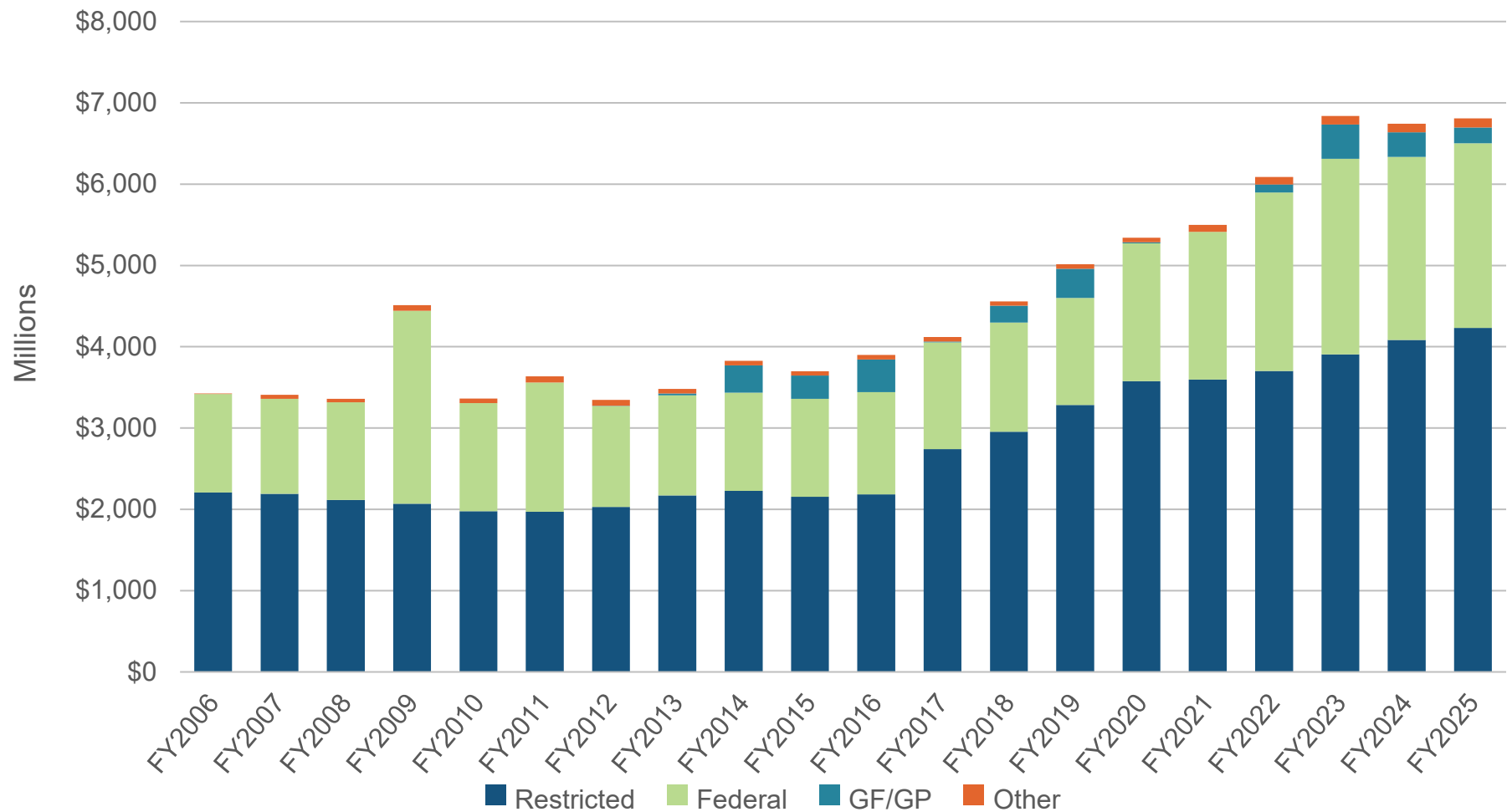
Retirement Liabilities

Prefunding retiree health benefits in FY 2011-12 led to the system being over **100%** funded by FY 2022-23. Since FY 2015-16, pension liabilities have increased due to revised risk assumptions and policies, including lowering the assumed rate of return from **8% to 6%**, moving to level dollar amortization, and creating a contribution floor.



Transportation Appropriations

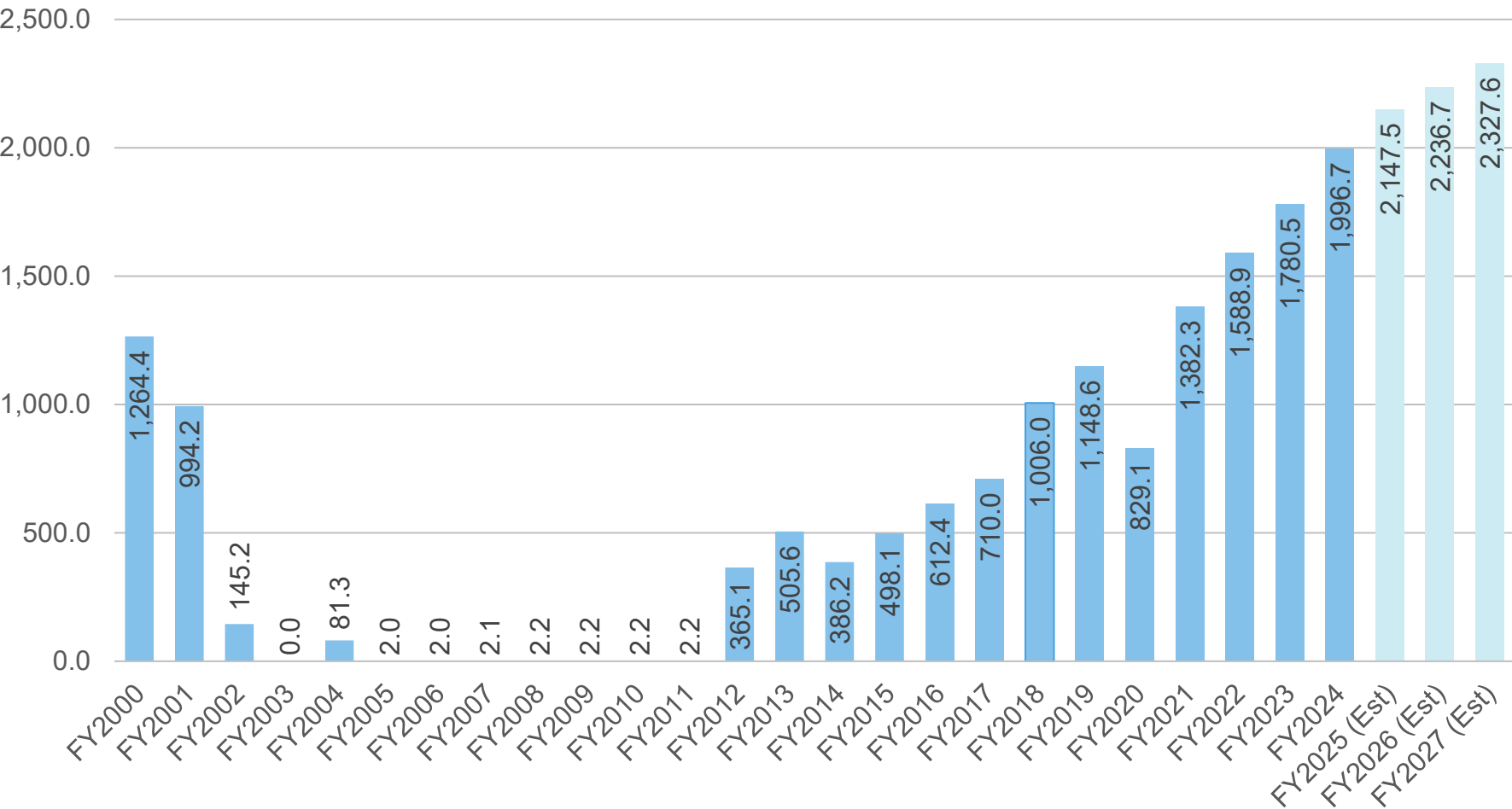
Increases in state restricted funds beginning in FY 2016-17 reflect the November 2015 Road Funding Package. Federal aid in FYs 2019-20 and 2020-21 includes COVID-19 relief funds. Federal fund increases beginning in FY 2021-22 reflect IIJA.



Note: FY 2008-09 increase in federal funds reflects ARRA “stimulus” program funding.

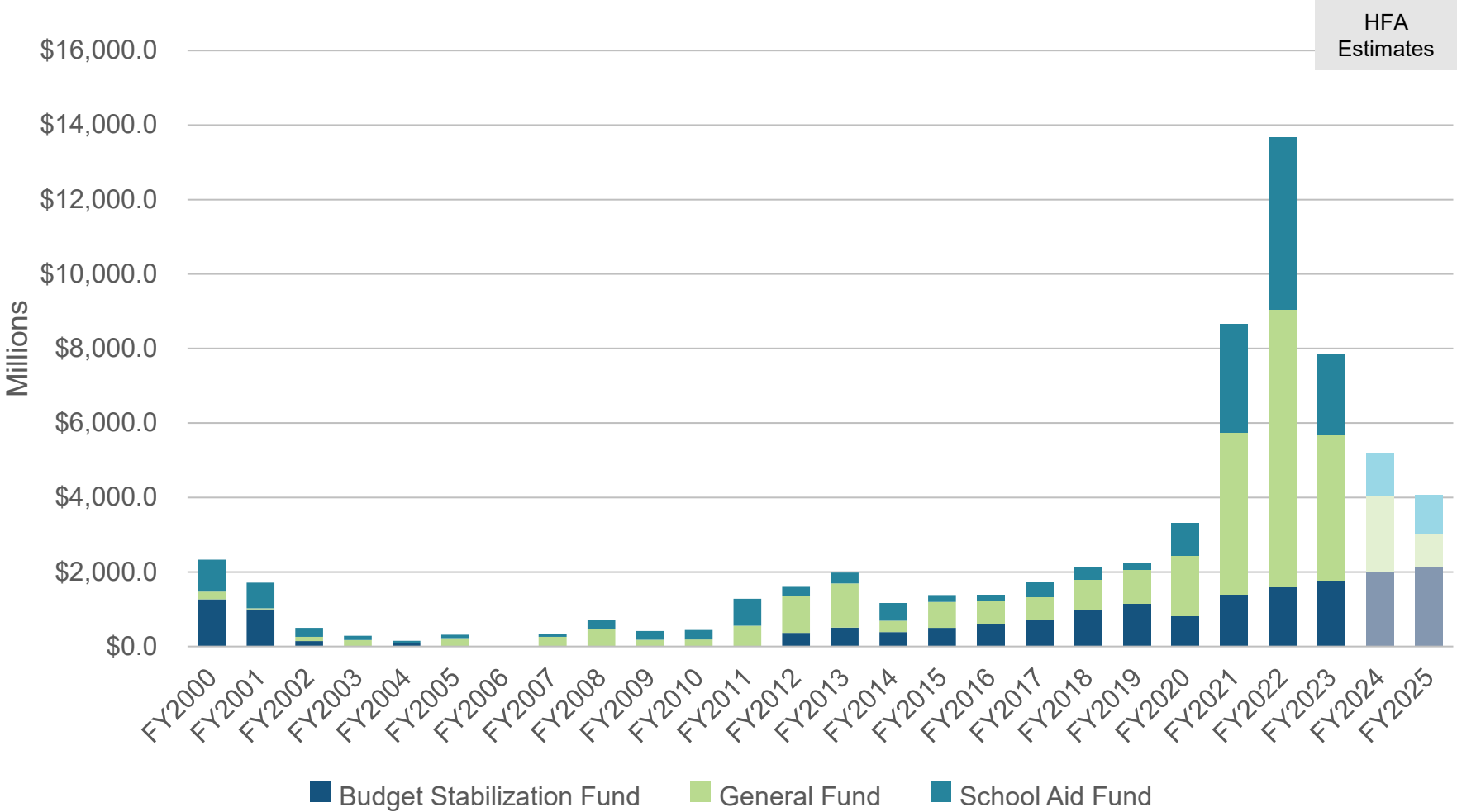
Budget Stabilization Fund Balance

After a \$118 million deposit, the balance at the end of FY 2024-25 is approximately **\$2,147.5 million—about 6.5%** of combined GF and SAF appropriations. The balance is expected to grow due to strong interest earnings under high interest rate environment, and annual repayments.



Combined Ending Balances

Large GF and SAF year-end balances accumulated from FY 2020-21 through FY 2023-24 as revenue growth outpaced projections and lower state expenditures due to federal stimulus funding in response to the coronavirus pandemic, allowing for substantial one-time expenditures.



Budget Outlook

January Consensus Revenue Estimates

Millions of \$

	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate	FY 2027-28 Trend	FY 2028-29 Trend
GF/GP Revenue	\$14,715.5	\$15,477.7	\$15,743.5	\$16,418.2	\$16,988.6
\$ Change	\$214.5	\$762.2	\$265.7	\$674.7	\$570.4
% Change	1.5%	5.2%	1.7%	4.3%	3.5%
SAF Revenue	\$18,459.6	\$18,891.5	\$19,354.5	\$19,881.8	\$20,407.1
\$ Change	\$374.2	\$431.9	\$463.1	\$527.3	\$525.3
% Change	2.1%	2.3%	2.5%	2.7%	2.6%

GF/GP Revenue

- FY 2025-26 increase is the result of the expiration of the CIT earmark for SOAR and RAP.
- Otherwise, modest growth returns in FY 2024-25 through FY 2026-27 as growth remains moderate throughout the forecast window.

SAF Revenue

- Revenues continue moderate growth through the forecast window.

Transportation Funding

- Transportation package enacted in 2015 did the following:
 - Increased motor fuel taxes from 15 cents per gallon (for diesel) and 19 cents per gallon (for gasoline) to 26.3 cents per gallon on January 1, 2017 (increase equates to roughly \$400 million per year).
 - Provided for the indexing of motor fuel tax rates beginning January 1, 2022 and each January 1st thereafter. The current motor fuel tax rate, effective January 1, 2025 is 31 cents per gallon for both diesel and gasoline.
 - Increased vehicle registration taxes for most vehicle classes by 20% beginning January 1, 2017 (raises roughly \$200 million per year).
 - Increased Homestead Property Tax Credit by altering various parameters: creates estimated GF/GP loss of about **\$206 million** per year beginning in FY 2018-19.
 - Redirected income tax revenue that had been used as GF/GP funds to transportation purposes beginning in FY 2018-19.
 - FY 2018-19: **\$264 million**
 - FY 2019-20: **\$468 million**
 - FY 2020-21 and each subsequent year: **\$600 million**
- In sum, starting in FY 2020-21, the fully phased in the package:
 - Increases dedicated resources for Transportation purposes by about **\$1.2 billion** per year.
 - Lowers GF/GP resources by about **\$600 million** per year.

Major School Aid Budget Issues

School Aid

- A **\$100** increase to the foundation in **FY 2025-26** would cost approximately **\$131.7 million**; an increase of **\$200** would cost approximately **\$265.8 million**.
- HB 4162 as passed by the House would increase the foundation by **\$417** to **\$10,025**, at an approximate cost of **\$578.5 million**.
- Baseline foundation costs for **FY 2024-25** are expected to decline by **\$80.6 million** based on declining pupils, growing local property tax values, and other cost adjustments (e.g., special education, MPSERS, etc.).
- **FY 2025-26** baseline foundation costs are expected to decline by a total of **\$145.6 million**.
- The MPSERS UAAL cap reduction goes into effect beginning **FY 2025-26**:
 - Cap on districts' costs is reduced from **20.96%** to **15.21%** (cost to state is about **\$622.6 million**)
 - Average savings to districts of **\$362** per pupil; range of **\$6** to **\$3,477** per pupil based on MPSERS payroll

Budget Process

Michigan's Budget Process

Supplemental/Transfer
Adjustments
Throughout Year

First Revenue Estimating
Conference
Second Week of January

Budget Schedule Set
Late January

Governor's Budget
Recommendation
Early February

Subcommittee
Deliberations
February and March

Appropriations Committee
Action
April

Floor Action
Early May

Second House Review
Early May

Second Revenue
Estimating Conference
Third Week of May

Leadership Targets
Mid-/Late May

Conference Committee/
Final Floor Action
Late May/Early June

Governor's Review/Line
Item Vetoes/Signature
June

Reports, Review, Prepare for
Next Budget
July thru January

The House Fiscal Agency (HFA)

- Agency personnel provide **confidential**, **nonpartisan** expertise to the House Appropriations Committee and all other members of the House on all legislative fiscal matters.
- **Fiscal Analysts**
 - Review the Governor's budget recommendation and assist legislators in developing budget alternatives;
 - Review and prepare budget bills, supplemental appropriations, and certain transfer requests;
 - Provide fiscal impact statements on legislative proposals;
 - Monitor state and national situations that may have budgetary implications;
 - Research and analyze fiscal issues;
 - Prepare reports and documents to assist legislative deliberations; and
 - Prepare special reports at the request of Representatives.
- **Economists**
 - Analyze legislation related to tax and revenue issues;
 - Respond to Representatives' inquiries regarding state tax revenue, revenue sharing, and other economic issues;
 - Monitor state revenue; track state and national economic conditions; and
 - Prepare reports on revenue and other economic issues.
- **Legislative Analysts**
 - Prepare concise, nonpartisan summaries and analyses of bills. Summaries, completed prior to committee deliberations, describe how a bill would change current law, including any fiscal impact. Analyses are prepared for bills reported to the full House from committee and include, with the summary information, a description of the problem being addressed, arguments for and against the bill, and positions of interested organizations.

For more information about the state budget:

HFA website

<http://www.house.mi.gov/hfa/>

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